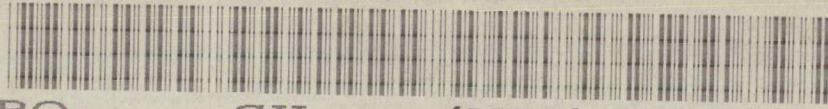


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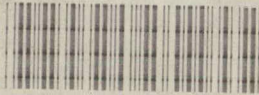
PART A

SECRET

(Circulate under cover and
notify REGISTRY of movement)



PO -CH /NL/0015



PART A

BUDGET 1987 AUTUMN
STATEMENT

PO -CH /NL/0015

-CH

PO

PART A

DD's 25 years NAJIB 10-3-95

STARTS - 23-07-87
ENDS - 23-10-87

CLAIMED

CLAIMED ON:-

PART

B

Mr Kuczyński

RESTRICTED

From: SIR PETER MIDDLETON

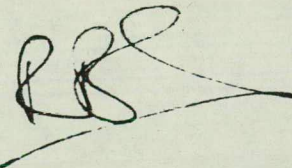
Date: 23 July 1987

CIRCULATION: AS ATTACHED LIST (ANNEX B)

AUTUMN STATEMENT SECURITY

I am concerned to ensure that our internal arrangements for handling the Survey arithmetic are once again as secure as possible.

... 2. I attach a code of practice on the handling of the GEPI scorecard and related material, based on the arrangements used successfully last year. EOG (Mr Rees) may organise spot checks to ensure the system is working properly and I would ask you all to help him with his duties.



PP P E MIDDLETON

AUTUMN STATEMENT SECURITY: CODE OF PRACTICE

The following arrangements, similar to those used last year, formalise the handling of material about the Chief Secretary's overall negotiating position for the bilaterals and the Star Chamber discussions.

Aim

2. The aim is to make our arrangements for handling this material as secure as possible, by ensuring the information is restricted to people with a need to know.

Coverage

3. The arrangements cover copies of the GEPl scorecard showing the Chief Secretary's overall negotiating position and papers discussing the scorecard and the Chief Secretary's overall tactics. The originators of the material (largely GEPl) are responsible for deciding which papers come into these categories.

ORIGINATORSIdentification

4. All papers covered by the arrangements should be classified **SECRET AND PERSONAL** and include the word **SCORECARD** in the top right hand corner of the first page above the copy number.

5. Originators should include copy numbers on all copies of **SCORECARD** material and keep a note of who those copies are sent to. The note, together with a brief description of the material copied, should be sent to Miss Mankelow (GEP Room 97/3) within 24 hours, so she can complete a log showing who has which copy.

6. Scorecard material should be circulated on a need to know basis. In no circumstances should a copy be sent (or shown)

to people not on the Scorecard circulation list (copy attached). This list will be extended later in the Autumn Statement, as necessary, to cover those involved in, for example, the Autumn Statement briefing exercise. Suggestions for adding people to the list should be sent to Sir Peter Middleton's Private Secretary (Mr Saunders), giving at least one day's notice.

RECIPIENTS

7. Recipients are asked not to photocopy any scorecard material and to show it only, on a need to know basis, to others on the Scorecard circulation list. Scorecard papers should not be left unattended by the person responsible for their custody - he/she should lock them away whenever he/she leaves the room. In some cases minutes covered by the scorecard rules will include less sensitive information eg on departmental running costs. This less sensitive material is not covered by this code of practice and may be shown to others.

8. The normal rules on taking classified documents home applies (paragraph 70 of the Treasury security instructions). If anyone needs to take SCORECARD material home on a regular basis, authority must be obtained from the Permanent Secretary. If an occasional need rises, authority must be obtained from an Assistant Secretary or above.

9. Recipients may keep copies of scorecard material as long as they wish. When they have no further use for it the material should be sent to Miss Mankelow (GEPl, Room 97/3) so the log can be amended before the material is destroyed.

Cupboards and spot checks

10. EOG will check that those on the scorecard list can keep the material in secure cupboards ensuring privacy from those not on the list. EOG (Mr Rees) may organise spot checks of scorecard material to ensure the system is working.

The Press

11. No one should brief the press on matters related to the bilaterals without first referring to Mr Culpin.

NEED TO KNOW GEPI SCORECARD: BILATERIALS AND STAR CHAMBER STAGES

Chancellor

Principal Private Secretary (Mr A C S Allan)

Private Secretary (Mr ~~A Kuczys~~ J M G Taylor)

Assistant Private Secretary (Mrs C Ryding)

Clerks (Mr N G Fray), (Miss J Camp), (Mr J Williams), (Mr A Lyons)

Chief Secretary

Private Secretary (Miss J Rutter)

Assistant Private Secretary (Mr M Felstead)

Clerks (Mr S I M Kosky), (Mr A A Dight)

Personal Secretary (Miss P Stanton)

Sir P Middleton

Private Secretary (Mr R B Saunders)

Personal Secretary (Miss J C Todd)

Mr K S D'Rosario

Mr F E R Butler

Senior Personal Secretary (Mrs F Verlander)

Mr J Anson

Senior Personal Secretary (Mrs E Davies)

Mr N Monck

Senior Personal Secretary (Miss R Jackson)

GEP

Mr A Turnbull

Senior Personal Secretary (Mrs V Brown)

Mr E J W Gieve

Personal Secretary (Mrs C Genuardi)

Mr R Pratt

Personal Secretary (Mrs G McKinnon)

Mrs R J Butler

Personal Secretary (Mrs S Church)

Miss S P B Walker

Ms M Wallace

GEPI Clerk (Miss C Mankelow)

Mr B Kalen

FP/EB

Mr C Scholar
Mrs D Crane

PSF/GEP3

Mr C J Mowl
Personal Secretary (Miss S J Nash)
Mr S J W Briscoe
Mr J K Darlington

D Deaton
Miss L Adamson

EOG

Mr M Rees

Special Advisers
Mr A Tyrie
Personal Secretary (Ms M May)

IDT

Mr R P Culpin
Personal Secretary (Mrs G McDowell)

RCM

Mr T Luce
Personal Secretary (Miss N F Hulbert)
Mr M Hoare

RS

FROM: MISS C EVANS
DATE: 31 JULY 1987

MUS 31/7

- 1. MR SCHOLAR
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- PCC
- Mr Moore
- Mr Peretz
- Mrs Lomax
- Mr Sedgwick
- Mr Turnbull
- Miss O'Mara
- Mr Culpin
- Mr Dyer
- Mr Cropper
- Mr Tyrie

- 1. *Mrs Burnham*
- 2. *Mr Spahr o.a.*

Miss Peirson

TIMING OF THE AUTUMN STATEMENT

It would assist our timetabling to have your agreement now to a provisional date for the Autumn Statement (we assume that you will again think an Autumn Statement is something we can't do without).

2. In recent years the main constraints have been the privatisation and Parliamentary timetables. Following a discussion taken by Sir Peter Middleton last week on the potential disclosure problems associated with a 15 October BP impact day our conclusion is that there is no need to stretch out the final Survey Cabinet timetable (provisionally planned for 5 November with a fall-back date of 12 November) so as to create space between the BP sale and the Autumn Statement. Since the 1987-88 session runs from June 1987 to October 1988 the usual gap between prorogation and opening is not a constraint this year: Parliament returns from the Summer Recess on 21 October and then sits up to the Christmas Recess. It is a problem this year that your Mansion House speech is planned for 4 November, the night before the public expenditure Cabinet, and perhaps before the Autumn Statement itself. This could be a factor in finally settling the timetable.

3. Last year we were faced with a large, and, to the outside world, unexpected increase in the planning total shortly before a major

privatisation issue. It was thought impossible to keep such a market sensitive piece of information secret between the Cabinet and the following week. It was therefore decided that the Cabinet's decisions should be announced in a full oral statement on the same day with the forecast and the main expenditure numbers issued as press notices. The traditional Autumn Statement document was published the following week. This procedure involved a number of risks eg that we would not settle all the figures between the end of Cabinet and the deadline for running off the statement. But with an uneventful Cabinet and by cutting a few corners we succeeded.

4. This year there is no privatisation issue immediately after the Autumn Statement, and no problem with Parliament being in recess. And a change to the planning total would cause less surprise. Nevertheless we may well feel that the precise figures are market sensitive and, if the Survey outcome is successful, some of the measures could be more controversial than last year. These considerations might point to repeating last year's procedure, though if we do it will be difficult ever to get back to a statement in the following week.

5. There is no need to decide this now, though it would be helpful not to leave a decision as late as last year when we had two plans running side by side. We will submit advice around the end of September - we shall need to alert the Whips of the likely Statement date in mid-October.

6. If you agree we propose to plan now for the Survey Cabinet on 5 November with the possibility of either

(a) a full oral statement (and press notice as last year) on the same day (and published document the following week)

or

(b) reverting to the previously established practice of having the oral statement and published document the week after the Survey Cabinet.

As a fallback we would keep open the possibility of letting the whole timetable slip by a week if the progress of the Survey makes this unavoidable.

CE

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Nigel
Thank AlexFROM: MISS C EVANS
DATE: 23 SEPTEMBER 1987MR SEDGWICK
MR TURNBULL
MISS PEIRSON
MISS O'MARA
MR SHORT
MR DYER~~Nigel~~
wd you like

first go at this?

~~Alex~~ DW.

CR

I have spoken to Cans
re PN's. She will draft letters to
Deph (and a strong version for DoE)cc Mr Scholar
Mr Allan
Mr Saunders
Mr Rawlins
Mr S J Davies
Mr McIntyre
Mr Gieve
Miss Walker
Mrs Burnhams**AUTUMN STATEMENT: CORE TIMETABLE**

Nigel

... I attach the first draft of the Autumn Statement timetable. Could I have comments/amendments by close on Friday, please. A revise will be circulated next week.

2. As last year we do not yet know when the oral statement will take place (we will be consulting the Chancellor about this on his return from Washington). But as a fail safe we have produced a timetable which will allow us to deliver the worst case option ie announcement on 5 November. Therefore for weeks -4 to -1 there is a single timetable. The timetable for week 0 (week beginning 2 November) shows the programme for 2 options: oral statement on 5 November and 10 November. I am assuming that whatever option is chosen the printed document will issue on Tuesday 10 November so there will be only one printers' schedule, but it is possible that the Chancellor may choose a different publication date so we would need to revise the schedule.

3. To reduce the time spent by authors in correcting printers' proofs and to avoid major changes which can cause the printer a lot of problems the objective is to send the proofs of each Chapter to the printer after it has been cleared (and if necessary discussed) with the Chancellor. Accordingly the timetable allows for a meeting with the Chancellor on Chapter 1 on Monday 26 October and for a revised version to be submitted to him the following day if necessary. Meetings to discuss the drafting of Chapters 3 and 4 seem unlikely to be needed - could Mr Turnbull advise on whether we should plan for a meeting on Chapter 2 (which would need to be early on 28 October so that amendments can be made before the Chapter goes to the printer that evening).

4. To avoid a separate submission on Chapter 3 I am suggesting that the ST submission to the Chancellor on the NICs decisions should also ask him to clear the text of Chapter 3 (which I assume will follow last year's format).

4. Miss Walker has already spoken to me about the new Chapter 2 format and we have agreed to send the printers a mockup in advance to allow them to set up the new tables and give us time to identify any layout problems. Could the authors of Chapters 1, 3 and 4 similarly let me know as soon as possible if they are planning to introduce any new tables or make significant changes to the layout of existing tables.
5. Could EB please insert the key dates for the AS brief and any important economic statistics release dates which I have omitted.
6. As discussed could Mr McIntyre please liaise direct with the Chancellor's Office about any meetings which may be needed on NICs. (The Chancellor's meetings on the Forecast on 14 and 26 October are already in the Diary.)
7. Points to remember which we need to timetable when we have a decision on procedure are:
 - a. arrangements for statement in the Lords;
 - b. if the statement is to be on 5 November we need to try to arrange an early start for Cabinet;
 - c. backbenchers' brief.
8. We will circulate the aide memoire (setting out the detailed timetable from 26 October) in the week beginning 12 October.

Carlys Evans

MISS C EVANS

ps. I have suggested that we aim provisionally to submit the first draft of the oral statement to the Chancellor on Friday 16 October (one working day earlier than last year). We shall need to timetable a meeting with the Chancellor as this nears the time.

Week -4

Key Events

Autumn Statement

Public Expenditure

Monday
5 OctoberTuesday
6 October

Party Conference

Wednesday
7 October

Party Conference

Thursday
8 October

Party Conference

Friday
9 October

Party Conference

Forecast report circulated
FP commission contributions
to oral statement

Week -3

Key Events

Autumn Statement

Public Expenditure

Monday
12 October

ECOFIN

ST submission to CX on
NICs consultations

Star Chamber reviews tasks

Tuesday
13 October

PCC meeting on the Forecast

Star Chamber

Wednesday
14 October

NEDC

Chancellor's meeting on the
Forecast

Star Chamber

Thursday
15 OctoberBP Impact Day
Unemployment figuresStar Chamber
GEP submission to CX + CST
on new Chapter 2 tablesFriday
16 OctoberSocial security uprating announcement
September PSBR1st draft of oral statement
to CX

Star Chamber

Week -2	Key Events	Autumn Statement	Public Expenditure
Monday 19 October		FP send mockup of Chapter 2 to printers	Star Chamber
Tuesday 20 October	Provisional money figures		Star Chamber
Wednesday 21 October		ST submission to CX on Chapter 3 FP submit Chapter 4 to CX Printers send Chapter 2 mockup to FP	GEP/Cabinet Office prepare Star Chamber stocktaking paper
Thursday 22 October	House of Commons return	PEM meeting on draft IAF (Chapter 1)	GEP clears Chapter 2 with Divisions
Friday 23 October	September trade figures	Chancellor comments on Chapter 3/4 EA commission charts from CSO 1st draft IAF (Chapter 1) to CX Chapters 3 & 4 to printers	

Week -1

Key Events

Autumn Statement

Public Expenditure

Week -1	Key Events	Autumn Statement	Public Expenditure
Monday 26 October	Stock Exchange speech	CX's meeting on Chapter 1	Star Chamber GEP considers whether Tsy Press Notices needed GEP draft speaking notes for CX and PM to use at Cabinet 29/10
Tuesday 27 October		Revised Chapter 1 to CX 1st draft Chapter 2 to CX PPS CX writes to No 10 about AS arrangements	Star Chamber
Wednesday 28 October		CX's comments on Chapter 1 revise circulated by 12am CX's comments on Chapter 2 circulated by 12am Chapters 1 & 2 to printers	Star Chamber
Thursday 29 October	Cabinet informed of AS timetable Treasury 1st Order Questions Departments informed of AS timetable		EB commission economic briefing for Cabine GEP commission pe briefing for Cabinet Cabinet Office draft Lord President's paper for Cabinet PS/CX writes to Departments commissioning Press Notices
Friday 30 October			

Week 0

Key Events

Autumn Statement (Plan A)
(Oral Statement 10 November)

Autumn Statement (Plan B)
(Oral Statement 5 November)

Monday
2 November

GEP and EB submit Cabinet briefing
to CX and CST

GEP and EB submit Cabinet briefing
to CX and CST
GEP finalise Survey arithmetic and
clear PE Press Notice with CX

Tuesday
3 November

Reserves published

Lord President's paper circulated
to Cabinet
Printers send 1st proof of AS (all
chapters) to FP, FP submit to CX

Tax Ready Reckoner Press Notice
finalised & copied
Lord President's paper circulated
to Cabinet
Printers send 1st proof of AS (all
chapters) to FP, FP submit to CX

Wednesday
4 November

Mar. sion House speech

CX's comments on AS proofs to FP
and authors by 12am

Forecast Press Notice finalised &
copied
CX's comments on AS proofs to
and authors by 12am

Thursday
5 November

Public Expenditure Cabinet
[Oral statement]

AS proofs to printers

Public Expenditure Press Notice finalised &
copied
Oral Statement finalised & copied
AS package finalised & circulated
AS proofs to printers

Friday
6 November

Saturday
7 November

am FSBR proofs checked in HMT
pm FSBR proofs returned to printers

am FSBR proofs checked in HMT
pm FSBR proofs returned to printers

Week + 1

Key Events

Autumn Statement

Monday
9 November

Read at press

Tuesday
10 November

[Oral Statement]
AS document published

Wednesday
11 November

Thursday
12 November

Unemployment figures

Friday
13 November

RPI published

ND

FROM: M.GIBSON
DATE: 25 September 1987

MISS EVANS

cc Mr Scholar
Mr Turnbull
Miss Peirson
Miss O'Mara
Mr Dyer
Mr Allan
Mr Saunders
Mr Rawlins
Mr S J Davies
Mr McIntyre
Mr Gieve

AUTUMN STATEMENT: TIMETABLE

Your minute of 23 September.

NICs

2. We have already made a submission to the Chancellor on the state of the NI Fund and know his preferences for this year.
3. The usual starting point to achieve interdepartmental agreement is a letter from the Secretary of State for Social Services making his proposals to the Chancellor, copied to the Secretary of State for Employment. It is possible that Mr Moore will write by the end of next week, but this is dependent on the Government Actuary doing the necessary calculations in time. However, DHSS officials are fully aware of the need to ensure that decisions are taken promptly. When Mr Moore's letter arrives, we will advise.
4. We anticipate that the text of Chapter 3, which we will clear with the Chancellor with follow last year's format exactly.

3/48.

5. There is just one potential wrinkle of which Mr McIntyre should be aware. Last year's Statement referred to the necessary orders and the GAD report being laid shortly; in practice this happened a few weeks later to enable a debate on the orders at the same time as the benefit uprating orders. This year, because of the accelerated timetable of the latter, there will need to be a separate debate on the contributions orders. Because of the large surplus in the Fund, DHSS officials had been hoping to avoid this and are still searching for ways round the problem. I think they will have to accept separate handling of the contributions order.

Benefits Uprating

6. Last year was straightforward, as Mr Fowler made an uprating statement for all benefits on 22 October, shortly after the publication of the September RPI and the return of the House. An early meeting of Star Chamber was arranged in the proceeding week to settle the programme. This year Mr Moore and the Chief Secretary have already reached agreement on the programme, though colleagues still need to be consulted.

7. But there are additional complications. As you know, there will be a new set of income related benefits introduced from next April and DHSS have received legal advice that they must consult the local authorities on the Housing Benefit rates (which are also income support rates) before final decisions are taken. They therefore anticipate that the rates will go to the local authorities for consultation in the week beginning 12 October, with a view to final decisions being taken and an uprating announcement being made on 5 November (ie about 2 weeks after the House returns). It is envisaged that this announcement would cover all benefits, and the necessary orders would be laid on the same day.

8. However, it is likely that DHSS will come under considerable pressure to make an earlier announcement of the non-income related benefits of which retirement pension and child benefit are the most important. This is because there has been a lot of press

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speculation about child benefit and because the September RPI comes out early this year (9 October), so everyone will be able to calculate the RPI linked increases. Once the House returns, the Opposition will ask for an early statement.

9. So the DHSS timetable attached, sent in a recent letter from Mr Moore to the Chief Secretary, is still fairly speculative in regard to the uprating announcement. You will also wish to note that DHSS intend to have for a debate on their uprating orders in the week beginning 16 November, to achieve a start on the conversion to the new benefit on 23 November (a fixed date). This may have implications for your timetable.

10. You may like to discuss on Monday.

M Gibson

M GIBSON

SECRET

TIMETABLE

<u>Preferred</u>	<u>Latest</u>	
1 October	15 October	Housing Benefit rates to local authorities for consultation.
15 October	29 October	Deadline for comment: Counsel advises 2 clear weeks as minimum.
22 October	5 November	Final decisions. Counsel advises one clear week as minimum to consider comments.
w/c 26 October	5 November	Uprating announcement. Regulations laid.
Tuesday 2 and Tuesday 9 November	Tuesday 9 and Tuesday 16 November	Joint Committee on Statutory Instruments. These are substantial sets of regulations: it is highly likely that JCSI will not take them in one go. They may raise queries on them at either session.
Week of 16 November		Debates in both Houses. Full day debates may be needed.
23 November		Income support conversion exercise starts. Regulations must be made by then.

FROM: A TURNBULL
DATE: 6 OCTOBER 1987

MISS O'MARA

cc Mr Scholar
Mr Culpin
Mr Gieve
Mr Hudson - 13/2
Miss Simpson
Miss Walker

BRIEFING FOR 1987 AUTUMN STATEMENT

X You asked for comments on your proposals for the structure of briefing. Rather than have a set of briefs F1 to F27 plus, as part of a separate pack, EEL to EE5, I would draw the two lots of material together into one pack of detailed briefing on public expenditure. I would then make arrangements for this to be given a more limited circulation - I doubt, for example, if all the forecasters need the detailed public expenditure material.

2. I think we can merge F6 and F7, and F20 and F23, and F2 and F3, with the emphasis being on F3. We can drop EE5, putting one or two Opposition knocking entries into E2. We also need to add a new brief for science & technology.

3. The title of F15 should be Lord Chancellor's Department and Legal Departments.

Mr Allan

AG

A TURNBULL

X sounds sensible to me, provided it doesn't cause difficulties for other Departments.

AMH

count
→
CULPIN
9/10

CHANCELLOR

Ch
I have alerted
Michael that you will
also want to discuss
possibility of moving it
one week forward
AA

c/ We are to have a meeting a
this on Wednesday of
next week

CR 9/10

Thur:

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- Sir Peter Middleton
- Mr F E R Butler
- Sir T Burns
- Sir G Littler
- Mr Anson
- Mr Turnbull
- Mr Scholar
- Miss Peirson
- Mr R I G Allen
- Miss O'Mara
- Mr Dyer
- Mr Cropper
- Mr Tyrie
- Mr Call

AUTUMN STATEMENT'

Mr Scholar's note of 30 September and Mrs Ryding's of 2 October.

2. If the Autumn Statement is on a Tuesday, you will need a holding statement the previous Thursday. Otherwise you will lose the initiative.

3. It can't just be "wait till Tuesday". That will just about do if you are sticking to the planning total, but not otherwise. (Remember 1984: minor change in the planning total, good Treasury outcome, but no proper Government statement, so "major Treasury defeat" in the press.)

4. The elements are roughly:

- public spending on track to decline further as a share of national income
- new planning totals of X Y (XZ) consistent with that
- policy succeeding, and entirely unchanged
- details on Tuesday.

The statement will need a few figures, but can be quite short.

5. I think we could probably draw the line at this point: keep off the PSBR, keep off the forecast, and so on. And if that is what we decide, we shall have to try hard to stick to it, in the face of pressures from the press: otherwise we could be accused of releasing information to newspapers before Parliament.

6. The most obvious procedural options (some of which could be combined) are these:

- a. An Ingham communique.
- b. A prepared text for Prime Minister's Questions.
- c. An arranged written PQ.
- d. A short Ministerial statement by you.
- e. A full Ministerial statement without supporting documents - effectively splitting an Oral Statement on Thursday from the published Autumn Statement on Tuesday.
- f. A repeat of last year.
- g. A press conference.

7. If you accept the judgements in paragraphs 4 and 5, I think (b), a text for Prime Minister's Questions, would probably be least bad. It could be supported by well orchestrated press briefing, of the kind we mount for the July Cabinet. And you could follow with a normal Oral Statement on the Tuesday.

8. It is a pity that the Thursday announcement would be outside your direct control. But unless you are to repeat last year's exercise, the options which involve you directly look to me a little clumsy.

9. You can discuss all this at your meeting on Wednesday.

10. I should like to add one other point.

11. Every Autumn Statement has at least two messages:

i. we are raising planned spending on many programmes; but

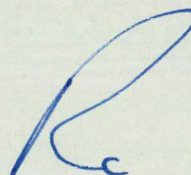
ii. it is still growing less fast than the rest of the economy.

The main table always highlights i., because it mainly compares new plans with old plans. For 1988-89, for example, the new provision for a lot of programmes is clearly going to be higher than the old provision, so we will get a long string of pluses.

12. I should like to see more emphasis on ii. This is partly for market reasons. It is also because, if you live in the real world, what matters is what happens between this year and the next, not how one load of numbers for next year differs from another load of numbers.

13. The problem, as we all know, is the Reserve. If we allocate it to programmes this year but not next, the comparison between years is bound to be somewhat artificial.

14. I understand that Mr Turnbull has proposals for improving the tables, which I think would help. You might bear this point in mind when it comes to refining them.



ROBERT CULPIN

CONFIDENTIAL



FROM: CATHY RYDING
DATE: 2 October 1987

MR SCHOLAR

cc: CST
FST
PMG
EST
Sir P Middleton
Mr F E R Butler
Sir T Burns
Mr Anson
Mr Turnbull
Mr Culpin
Miss Peirson
Mr Dyer
Mr Cropper
Mr Tyrie
Mr Call

FORMAT OF THE AUTUMN STATEMENT

The Chancellor was grateful for your minute of 30 September.

2. The Chancellor has commented that there are a number of angles to this, and he would like to hold a small meeting in the week after the Party Conference. We shall be in touch shortly to arrange this meeting. In the meantime (and in advance of the meeting) the Chancellor would be grateful if Mr Culpin would let him have a note from his angle.

A handwritten signature in cursive script, appearing to be 'CR'.

CATHY RYDING

CR
SCHOLAR
2/10

CONFIDENTIAL

FROM: M C SCHOLAR
DATE: 30 SEPTEMBER 1987

- 1. SIR PETER MIDDLETON
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- PCC
- MEG
- Miss Peirson
- Mr Dyer
- Mr Cropper
- Mr Tyrie
- Mr Call

Thanks. That's a number a minute. I think we should be in touch with the Chancellor. I think we should be in touch with the Chancellor. I think we should be in touch with the Chancellor.

minutes. I think we should be in touch with the Chancellor. I think we should be in touch with the Chancellor. I think we should be in touch with the Chancellor.

discuss. I think we should be in touch with the Chancellor. I think we should be in touch with the Chancellor. I think we should be in touch with the Chancellor.

I strongly support the conclusion of this minute. There are always some market risks but they do not seem sufficient on this occasion to run the alternative route for

FORMAT OF THE AUTUMN STATEMENT

botched job. M

As foreshadowed in Miss Evans' submission of 31 July this note discusses the options for presenting the Autumn Statement following the public expenditure Cabinet which you have agreed should be provisionally planned for 5 November. We need to decide whether to follow the practice usually followed before 1986: oral statement and published document on the Tuesday (10 November) following the public expenditure Cabinet (Plan A) or whether to repeat last year's procedure: oral statement and press notices on 5 November and printed document the following week (Plan B).

2. You will recall that we broke with precedent last year for two reasons, substantive and procedural:

- a. we were concerned that, if a Statement were delayed, partial reports and leaks of the increases in the planning totals would damage market confidence just ahead of the Gas privatisation because markets were not anticipating such increases;
- b. the Opening of Parliament was not until Wednesday 12 November so an oral statement to the House on the Tuesday following the public expenditure Cabinet was not possible.

3. This year the procedural problem does not arise. Parliament returns on 21 October and then sits until Christmas. The choice

SCHOLAR
→
CH/EX
399

between Plans A and B therefore turns mostly on a judgement about the market sensitivity of the likely public expenditure decisions on 5 November. This year the fact that the planning totals are being increased will not be news in the markets. But an increase on the scale of last year could come as a surprise, although estimates are currently circulating of increases in the range of £2-4 billion. If the outcome were in that range most of us feel that the impact on the markets of the public expenditure increases in the Autumn Statement should be fairly small; and that it should be possible to revert to the previously established procedure of announcing the decisions on the Monday or Tuesday (preferably the Tuesday, to give ourselves and Departments maximum time to co-ordinate publicity) after the Cabinet.

4. MG on the other hand feel this could be running a market risk, the size of which is difficult to judge at present. It could be that financial markets at the time are fairly settled, as they have been, on the whole, over recent weeks. In that case, and so long as the outcome were within the range expected, there would be little difficulty. On the other hand, we could be facing rather unsettled markets: for example if we have had a further set of bad trade figures. In that case, particularly if the public expenditure increase were at or above the top of the expected range, the inevitable speculation, and probable leaks, about the precise numbers could easily disrupt the markets in the few days between the Cabinet meeting and the announcement - disruption that might be avoided were you to make an earlier full presentation announcing at the same time a lower than expected PSBR figure for the current year, and reassuring expenditure/GDP ratios for the future.

5. Subject to your views on market sensitivity there are strong reasons for returning to a statement on Tuesday after Cabinet. If we repeat last year's pattern this year it will be very difficult in future years to revert to previous practice. The risks we ran last year were considerable. To meet our aim of publishing all the information normally contained in the printed document we had to be ready to follow an exceedingly tight timetable to finalise and distribute copies of your Statement, together with copies of the Press Notices announcing the Forecast, the Public Expenditure plans, and the tax ready reckoner figures. Things went reasonably smoothly

because all programmes were settled before the Cabinet meeting and Cabinet endorsed your proposals without qualification and finished early. We cannot be sure that this will happen again this year. If Cabinet changed the public expenditure decisions or left some details unclear there could be serious difficulties in getting the documentation out in time. In these conditions the risks of mistakes are high and even if things go smoothly we might not be able to settle the detailed numbers for Scotland, Wales and Northern Ireland in time for release on the day (you will recall that the omission of some of these detailed figures last year caused some problems in Parliament). We also need to finalise Departmental press notices well ahead of Cabinet in order to secure maximum public impact on the day and one or more of these could be casualties of a last-minute Cabinet decision.

6. Last year the work of the Star Chamber had progressed sufficiently well for us to be able to warn departments after Cabinet on 30 October that public expenditure would be on the agenda for the 6 November meeting and that a statement would be made on the afternoon of that day. This gave departments a week in which to prepare Press Notices and, with a couple of exceptions, departments met the tight deadlines.

7. If, however, negotiations in Star Chamber continued until very soon before the Cabinet, the Prime Minister might not decide until the last minute whether to bring the Survey onto the agenda on 5 November or to delay a week in an effort to resolve outstanding differences. This would mean that the notice we could give for the preparation of Press Notices would be too short, the presentation of a Survey outcome suffering as a result.

8. A further consideration is the Parliamentary problem which would arise if an on-off decision meant that Opposition spokesmen were not given adequate warning of the timing of the Statement.

CONCLUSION

9. To avoid the risks inherent in last year's procedure we recommend that we should decide now to plan for Plan A: an Autumn Statement on Tuesday 10 November. The date of the Statement would be

announced on the day of the public expenditure Cabinet. Naturally for operational reasons we would welcome a firm decision now for 10 November. However, if you prefer to defer a final decision until nearer the time it would nevertheless be useful for us to know now your views on these arguments. We think that we would need a final decision by 29 October at the very latest, (NB trade figures 23 October; money 20 October; PSBR 16 October) to give us a week to draw up last minute plans for a Statement on 5 November.

MLS

M C SCHOLAR



*Alex
pup*

FROM: A C S ALLAN
DATE: 3 August 1987

MISS C EVANS

- cc: PS/CST
- PS/FST
- PS/PMG
- PS/EST
- Sir P Middleton
- Sir T Burns
- Mr F E R Butler
- Mr Anson
- Mr Cassell
- Mr Monck
- Mr Peretz
- Mrs Lomax
- Mr Scholar
- Mr Sedgwick
- Mr Turnbull
- Miss O'Mara
- Mr Culpin
- Mr Dyer
- Mr Cropper
- Mr Tyrie

ACSA
→
EVANS
3/8

TIMING OF THE AUTUMN STATEMENT

The Chancellor was grateful for your minute of 31 July. He was content with your proposals, and awaits further advice around the end of September.

ACSA

A C S ALLAN

CONFIDENTIAL

FROM: MISS C EVANS
DATE: 31 JULY 1987

- 1. MR SCHOLAR
- 2. CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Financial Secretary
- Paymaster General
- Economic Secretary
- PCC - Mr Allan
- Mr Moore
- Mr Peretz
- Mrs Lomax
- Mr Sedgwick
- Mr Turnbull
- Miss O'Mara
- Mr Culpin
- Mr Dyer
- Mr Cropper
- Mr Tyrrie

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TIMING OF THE AUTUMN STATEMENT

It would assist our timetabling to have your agreement now to a provisional date for the Autumn Statement (we assume that you will again think an Autumn Statement is something we can't do without).

2. In recent years the main constraints have been the privatisation and Parliamentary timetables. Following a discussion taken by Sir Peter Middleton last week on the potential disclosure problems associated with a 15 October BP impact day our conclusion is that there is no need to stretch out the final Survey Cabinet timetable (provisionally planned for 5 November with a fall-back date of 12 November) so as to create space between the BP sale and the Autumn Statement. Since the 1987-88 session runs from June 1987 to October 1988 the usual gap between prorogation and opening is not a constraint this year: Parliament returns from the Summer Recess on 21 October and then sits up to the Christmas Recess. It is a problem this year that your Mansion House speech is planned for 4 November, the night before the public expenditure Cabinet, and perhaps before the Autumn Statement itself. This could be a factor in finally settling the timetable.

3. Last year we were faced with a large, and, to the outside world, unexpected increase in the planning total shortly before a major

EVANS
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CH/EX
31/7

privatisation issue. It was thought impossible to keep such a market sensitive piece of information secret between the Cabinet and the following week. It was therefore decided that the Cabinet's decisions should be announced in a full oral statement on the same day with the forecast and the main expenditure numbers issued as press notices. The traditional Autumn Statement document was published the following week. This procedure involved a number of risks eg that we would not settle all the figures between the end of Cabinet and the deadline for running off the statement. But with an uneventful Cabinet and by cutting a few corners we succeeded.

4. This year there is no privatisation issue immediately after the Autumn Statement, and no problem with Parliament being in recess. And a change to the planning total would cause less surprise. Nevertheless we may well feel that the precise figures are market sensitive and, if the Survey outcome is successful, some of the measures could be more controversial than last year. These considerations might point to repeating last year's procedure, though if we do it will be difficult ever to get back to a statement in the following week.

5. There is no need to decide this now, though it would be helpful not to leave a decision as late as last year when we had two plans running side by side. We will submit advice around the end of September - we shall need to alert the Whips of the likely Statement date in mid-October.

6. If you agree we propose to plan now for the Survey Cabinet on 5 November with the possibility of either

- (a) a full oral statement (and press notice as last year) on the same day (and published document the following week)
- or
- (b) reverting to the previously established practice of having the oral statement and published document the week after the Survey Cabinet.

As a fallback we would keep open the possibility of letting the whole timetable slip by a week if the progress of the Survey makes this unavoidable.

CE

MISS C EVANS

SECRET

*pur*FROM: A TURNBULL
DATE: 15 JULY 1987

MR SCHOLAR

cc Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Cassell
Mr Monck
Mr Moore
Mr Gieve
Miss Evans
Mr A C S Allan (personal)

TIMING OF AUTUMN STATEMENT

I am strongly opposed to your proposal deliberately to spin out the Survey for another two weeks so that Cabinet would be on 19 November rather than 5 November and the Autumn Statement on 24 November rather than 10 November.

2. In my view, the longer taken over the Survey, the more difficult it is likely to be. First, the nature of the Survey this year is that, unlike last, the outside world will know an increase in the plans is coming and will therefore devote a lot of energy to speculating on its size. I cannot believe that it helps the Government to have this uncertainty prolonged longer than necessary. Your dichotomy between uncertainty around the time of the offer on the GEP schedule but calm if the schedule were stretched out seems exaggerated.

3. Secondly, the more protracted the process the greater the opportunity for the forces of opposition to expenditure savings to muster. According to the Whips Office, Parliament will reassemble on 21 October and sit without interruption until Christmas. While it is sitting it can only be a source of difficulty for the Treasury. Under our proposed schedule we minimise the overlap between the Survey and Parliament.

4. Thirdly, some of the members of the Star Chamber will be departmental Ministers whose workload increases when Parliament reassembles and Lord Whitelaw will have duties in the Lords. It would be difficult to get them to sustain a long period of double duty.

TURN-
BULL-
CHEX
15/7

5. Fourthly, to delay the Autumn Statement by two weeks would certainly delay publication of the White Paper.

6. Finally, I remain unconvinced that there is a problem sufficient to justify diverting an important exercise like the Survey from its optimal course. What are the specific Survey decisions that are relevant to BP? Is setting an oil price assumption so difficult? One could establish a figure in early October and stick to it for the Autumn Statement unless there were a clear change in market circumstances - in which case the reasons for the change would be defensible.

7. My preference remains to plan on a 5 November Cabinet, with the following week kept in reserve should there be difficulties in making the final deals, but not to plan deliberately for 12 November or later.

AT

A TURNBULL

1. Andres
2. pup



FROM: A C S ALLAN
DATE: 14 July 1987

MR SCHOLAR

cc Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Cassell
Mr Monck
Mr Moore
Mr Turnbull
Miss Evans

TIMING OF THE AUTUMN STATEMENT

One additional date to put in your calendar is the Mansion House Speech on Wednesday, 4 November. On the present timetable this is the evening before the main public expenditure Cabinet! I do not pretend this is a major consideration, but some delay to the PES timetable would certainly make for a less frantic first week of November.

ACSA

A C S ALLAN

ACSA
→
SCHOLAR
14/7

SECRET

FROM: M C SCHOLAR
DATE: 13 JULY 1987

MR TURNBULL

*Manor House
4 Nov*

cc Sir Peter Middleton
Mr F E R Butler
Mr Anson
Mr Cassell
Mr Monck
Mr Moore
Miss Evans
Mr A C S Allan (personal)

TIMING OF THE AUTUMN STATEMENT

I have been giving some thought to the timing of the Autumn Statement as it affects the BP sale.

2. In recent years we have been under pressure to make the Autumn Statement as quickly as possible in order to maximise the gap between it and a major sale. This year the sale we are planning comes ahead of the Autumn Statement, so the pressure for early decisions is much weaker than usual (although I know that there are always some public expenditure arguments in favour of an early Autumn Statement).

3. As I understand it the timetable currently in mind is as follows:

BP	Survey
15 October impact day	12 October)
27 October offer closes	) Star Chamber
29 October dealing starts	30 October)
8 November allocations issued	5 November Cabinet
	10 November Autumn Statement

4. I think this timetable has some risks for us. The offer period continues up to the end of the Star Chamber when it could reasonably be argued that the Government had taken decisions or formulated a clear intention in relation to both detailed individual public expenditure issues, and the overall public expenditure totals. By the end of October, the week before the public expenditure Cabinet,

SCHOLAR
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BULL
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we would also be close to finalising the forecast, including the oil price assumption.

5. There is another point, too. In the last stages of the Survey there can be rumours or leaks that the Government is having difficulty in reaching its decisions on public expenditure, that it is disunited, that the Treasury is losing the battle - and so on. If - as now seems unlikely, but is nevertheless possible - the markets were weak at that stage, the success of the sale might be endangered. Alternatively, if none of this happened and the markets remained buoyant throughout October we might be vulnerable if one week after the offer period closed Cabinet took decisions which were thought subsequently to have depressed the BP share price significantly.

6. As I understand it the above BP timetable depends on Stock Exchange agreement to start dealing ahead of the issue of allocations on 8 November. If this is not forthcoming the offer period could on the above timetable remain open up to the first week in November (I understand that, in that event, PE would want to reconsider the whole timetable).

7. What would be the penalty if we decided in the coming weeks to aim for 3 clear weeks between the end of the offer period and the Autumn Statement? This would mean, on present plans, delaying the Statement until 24 November with Cabinet on 19 November. On this timetable the Star Chamber might start on 26 October and there would be only 1 week of overlap between the Star Chamber and the offer period. I think we could reasonably argue that the Survey was still wide open at this stage and we would therefore be safe from disclosure problems relating to either specific decisions on public expenditure or on the forecast; or more generally in relation to the public expenditure totals. What would we lose from a deliberate decision now to take the last few weeks of the Survey at a slightly slower pace than in the recent past?

MCS

M C SCHOLAR

FROM: S P B WALKER

DATE: 13 October 1987

- seen in draft*
1. MR GIEVE
 2. CHANCELLOR

cc Chief Secretary
 PEX
 Mr Scholar
 Mr Hawtin
 Mr D J L Moore
 Mr Potter
 Mr Instone
 Mrs Brown
 Miss Evans
 Mr Fellgett
 Mr Tarkowski
 Mr G C White
 Mr Tyrie

Ch
OK? (see para 6)
Can discuss at 5 PM
meeting
AA

AUTUMN STATEMENT: PUBLIC EXPENDITURE TABLES

X You discussed at a meeting in July, and foreshadowed in the paper on the new planning total you sent to the Prime Minister, a change in the presentation of the public expenditure figures in the Autumn Statement which placed greater emphasis on the breakdown of expenditure totals by spending authority. At the same time, we have been considering ways of simplifying the column structure of the tables which appeared in last year's Autumn Statement.

2. I now attach the formats which we propose to use, if you agree. The main table will be table 1, which shows central government expenditure broken down by department, totals for local authorities' and public corporations' expenditure, and the other components of the planning total and general government expenditure. The other tables show local authority spending (capital and current combined) public corporations (nationalised industries and others) and total spending, by department.

Departmental figures

3. The departments are listed in the same way as in last year's Autumn Statement tables, apart from the following simplifications:

i. the presentation of the Agricultural departments' figures has been simplified, to follow their treatment in the White Paper. This is designed to avoid the need for an adjustment to remove double-counting between the Domestic Agriculture and territorial lines which appeared in last year's Autumn Statement tables.

ii. PSA and Civil Superannuation are included in 'other departments', again to match the White Paper.

iii. the small legal departments are added in with the Lord Chancellor's Department.

4. The totals for the individual spending authorities will be artificial in one respect, since it will be impossible at the time of the Autumn Statement to reflect the decisions of territorial Ministers on the allocation of their block budgets. For illustrative purposes, the table will show the blocks allocated in the same proportions as the plans for spending in the current year, published in the White Paper.

5. DOE have in the past been unwilling to show a full spending authority breakdown of the housing figures for the future years. However, DOE officials have recommended to their Ministers that they should agree to the limited breakdown we propose.

Columns

6. The columns in all the tables show the new levels of expenditure and the changes from the last White Paper. This structure will be easier to follow than last year's and is in line with suggestions made, following last year's Autumn Statement, by Mr Andrew Likierman, the TCSC's adviser.

7. We would be grateful for your agreement to the proposed formats.

We had long anguish over these last year. As I recall, you felt it was important to keep the column for cash change between 1985-86 & 1986-87, which has been dropped.

** last year this year would have 86-87 b 87-88*
S P B WALKER
** dropped in this new presentation. It also drops the old plans, which may not matter much.*
AA

*Mr W.M.
H.M.
M.S.
+ explanation*

TABLE 1

M/S to split for CC.

change

	New estimates and plans					Change from January 1987 White Paper(1)		
	1986-87	1987-88	1988-89	1989-90	1990-91	1987-88	1988-89	1989-90
	OUTTURN	ESTIMATED OUTTURN	PLANS	PLANS	PLANS	fmillion	fmillion	fmillion
	1	3	8	9	10	5	11	12
CENTRAL GOVERNMENT								
of which -								
Ministry of Defence								
FCO - Diplomatic wing								
FCO - Overseas Development Administration								
European Communities								
Ministry of Agriculture, Fisheries and Food								
Department of Trade and Industry								
Export Credits Guarantee Department								
Department of Energy								
Department of Employment								
Department of Transport								
DOE - Housing								
DOE - other environmental services								
Home Office								
Legal departments(3)								
Department of Education and Science								
Office of Arts and Libraries								
DHSS - health and personal social services								
DHSS - social security								
Scotland(2)								
Wales(2)								
Northern Ireland(2)								
Chancellor's departments								
Other departments(5)								
LOCAL AUTHORITIES								
of which -								
Relevant expenditure(4)								
Other current								
Capital								
PUBLIC CORPORATIONS								
of which -								
Nationalised industries								
Other public corporations								
Reserve								
Privatisation proceeds								
Adjustments								
PLANNING TOTAL								
General Government gross debt interest								
Other national accounts adjustments								
GENERAL GOVERNMENT EXPENDITURE								

TOTM CC

Ext. Fin.

(1) Adjusted for minor changes of classification and allocation.
 (2) The distribution of expenditure within the Scottish, Welsh and Northern Irish blocks is at the discretion of the respective Secretaries of State; and the distribution shown is at this stage for illustrative purposes only. It assumes that the division between spending authorities which applied in 1987-88 (as shown in Tables 3.16.2, 3.17.2 and 3.18.2 in the 1987 White Paper) will also apply to future years, although this may not be the case.
 (3) Lord Chancellor's Department, Director of Public Prosecutions, Crown Prosecution Service, Crown Office, Northern Ireland Court Service and Serious Fraud Office.
 (4) Expenditure relevant for Rate Support Grant. For definition, see Part 4 of the 1987 White Paper.
 (5) Includes Property Services Agency and Civil Superannuation.

TABLE 2

	New estimates and plans					Changes from		
	£million					January 1987 White Paper		
						£million		
	1986-87	1987-88	1988-89	1989-90	1990-91	1987-88	1988-89	1989-90
	OUTTURN	ESTIMATED	PLANS	PLANS	PLANS			
		OUTTURN						
LOCAL AUTHORITIES								
Ministry of Agriculture, Fisheries and Food								
Department of Trade and Industry								
Department of Employment								
Department of Transport								
DOE - Housing								
DOE - other environmental services								
Home Office								
Department of Education and Science								
Office of Arts and Libraries								
DHSS - health and personal social services								
DHSS - social security								
Scotland*								
Wales*								
Northern Ireland*								
TOTAL								

* The distribution of expenditure within the Scottish, Welsh and Northern Irish blocks is at the discretion of the respective Secretaries of State; and the distribution shown is at this stage for illustrative purposes only. It assumes that the division between spending authorities which applied in 1987-88 (as shown in Tables 3.16.2, 3.17.2 and 3.18.2 in the 1987 White Paper) will also apply to future years although this may not be the case.

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cap*

*make be
temporary
assumptions*

TABLE 3

*add Nov 88
Ames
Indicators*

	New estimates and plans					Changes from January 1987 White Paper		
	fmillion					fmillion		
	1986-87 OUTTURN	1987-88 ESTIMATED OUTTURN	1988-89 PLANS	1989-90 PLANS	1990-91 PLANS	1987-88	1988-89	1989-90
PUBLIC CORPORATIONS <i>EXT FIN</i>								
Ministry of Defence								
FCO - Overseas Development Administration								
Ministry of Agriculture, Fisheries and Food								
Department of Trade and Industry								
Department of Energy								
Department of Employment								
Department of Transport								
DOE - Housing								
DOE - other environmental services								
DHSS - health and personal social services								
Scotland*								
Wales*								
Northern Ireland*								
Chancellor's departments								
TOTAL								

* The distribution of expenditure within the Scottish, Welsh and Northern Irish blocks is at the discretion of respective Secretaries of State; and the distribution shown is at this stage for illustrative purposes only. It assumes that the division between spending authorities which applied in 1987-88 (as shown in Tables 3.16.2, 3.17.2 and 3.18.2 in the 1987 White Paper) will also apply to future years, although this may not be the case.

*ofw NIs
OPC*

TABLE 4

MPC?

	New estimates and plans					Changes from January 1987 White Paper		
	£million					£million		
	1986-87 OUTTURN	1987-88 ESTIMATED OUTTURN	1988-89 PLANS	1989-90 PLANS	1990-91 PLANS	1987-88	1988-89	1989-90
TOTAL EXPENDITURE (including local authority spending and nationalised industries' external finance)								
Ministry of Defence								
FCO - Diplomatic wing								
FCO - Overseas Development Administration								
European Communities								
Ministry of Agriculture, Fisheries and Food								
Department of Trade and Industry								
Export Credits Guarantee Department								
Department of Energy								
Department of Employment								
Department of Transport								
DOE - Housing								
DOE - other environmental services								
Home Office								
Legal departments*								
Department of Education and Science								
Office of Arts and Libraries								
DHSS - health and personal social services								
DHSS - social security								
Scotland								
Wales								
Northern Ireland								
Chancellor's departments								
Other departments								
Reserve								
Privatisation proceeds								
Adjustments								
PLANNING TOTAL								

*Lord Chancellor's Department, Director of Public Prosecutions, Crown Prosecution Service, Crown Office, Northern Ireland Court Service and Serious Fraud Office.

NAA
 99E



BF/w
prayers
on Friday

Chancellor.

I have shown this to
Andrew Tyrie only —
in case you want to
go for option (i) and
forget about (ii) without
further discussion.

Andrew
I had like
to discuss @
Oxford

PK.

PRIVATE AND CONFIDENTIAL

FROM: P J CROPPER
DATE: 13 October 1987

CHANCELLOR

BACKBENCH BRIEF ON AUTUMN STATEMENT

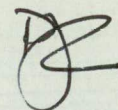
The Party was charged £619 for production of the Backbench Budget Brief this year. See attached. Not surprisingly, CRD was a bit dismayed.

Question: What should we do about the brief for the Autumn Statement?

- (i) Carry on as before and tell CCO they must lump it. The Autumn Statement brief would not be as long as that for the Budget: but I have little doubt they will try and push their costings upwards.
- (ii) Get the Department to produce the main detailed brief, giving bull points for each department, on the grounds that it would have a useful market outside as well as on the backbenches, and confine special advisers' input to a four side speaking note.

The problem with (ii) is that the brief might have to go to Labour backbenchers as well.

2. Discuss at Friday prayers?



P J CROPPER

FROM: G D ROGERS
 DATE: 6 May 1987

MR CROPPER

cc: Mr Rawlings

BACKBENCHERS BUDGET BRIEF

Thank you for your minute of 27 April about the costs of producing the backbenchers budget brief. ^{x below.} We produced 450 copies of the brief, which was 18 pages in length - 16 pages double-sided and 2 single-sided. Total number of sheets was 450 x 16 (7200) and 450 x 2 (900) - in all 8,100.

2. In line with HMSO's changing guidance the cost of producing the brief is as follows:

Printing Charges

450 copies of a 16 page double-sided original

Preliminary charge of £6.00 per original (x16)	£ 96.00
Running charge of £1.90 per 100 sheets (x72)	£136.80

450 copies of a 2 page single sided original

Preliminary charge of £3.50 per original (x2)	£ 7.00
Running charge of £1.26 per 100 sheets (x9)	£ 11.34

Finishing Charges

Preliminary charge £5.00 per job	£ 5.00
Gathering sheets into sets £5.25 per 1000 sheets (x8.1)	£ 42.53

Corner stitching	£ 10.50
	£309.17

25% confidentiality premium	£ 77.29
	<u>£386.46</u>

3. In addition, Miss Gable worked $11\frac{3}{4}$ hours at double time and 3 hours ordinary overtime. In accordance with the ready reckoner for staff costs, Miss Gable's average salary cost is £8.76 per hour: thus $11\frac{3}{4} \times 2 + 3 = 26\frac{1}{2}$ hours @ £8.76 = £232.14.

4. The total cost to the department of producing the backbenchers brief was therefore £386.46 x £232.14 = £618.60. May I ask that a cheque for that amount be sent to me. I can then clear my records before passing it to Finance Division, Basingstoke.



G D ROGERS

3971/25

FROM: P J CROPPER
DATE: 27 April 1987

MR G D ROGERS

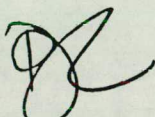
cc PS/Chancellor
Mr Fox
Mr Rawlings

BACKBENCH BRIEF

You request information about time devoted to the backbenchers budget brief.

2. My secretary, Miss Gable, came in on the two Sundays preceding budget day and worked 11 9/12 hours as shown on the attached time sheet. This time was entirely devoted to the brief, as were the three hours of overtime on the eve of the budget, 17 March.

3. I myself worked rather more hours in the office during the course of those two weekends, and was very late leaving the office over the whole period. However I am not eligible for overtime payment and suggest, therefore, that it is inappropriate for my time to be charged.


P J CROPPER

FROM: G. D. ROGERS
DATE: 25 March 1987

MR CROPPER

cc: Mr Fox
Mr Rawlings

BACKBENCHERS BRIEF

As you may know, following exchanges in the House of Commons during and after the Economic Debate on the 1986 Autumn Statement, the procedures for producing the Backbenchers brief were reviewed.

2. The result is that while the briefing will continue to be produced in the Treasury, the full costs of providing this work must be recovered from Conservative Central Office. In the past, we have only charged for printing and finishing costs but we now also need to charge Central Office for any typing time and Special Adviser's time. In addition, a 25 per cent premium will also be charged for producing work under confidential conditions (this is in line with HMSO's charging guidance).

3. I now need to prepare the costs breakdown for the Brief produced in connection with this year's Budget. To do this, however, I need to know the total amount of time spent by Special Advisers and typists in preparing the Brief and I should be grateful if you would let me have this information.

4. If you require any further information, or if I can be of any assistance, do please let me know.



G D ROGERS

SECRET AND PERSONAL

FROM: A C TYRIE

DATE: 14 OCTOBER 1987

CHANCELLOR

cc Chief Secretary

Mr A Turnbull

AUTUMN STATEMENT: END GAME AND PRESENTATION

I don't know how far you will want to go into this at your meeting at 5.00pm but here are a few first thoughts in any case.

There are three related problems to sort out:

- (i) Do we want a Star Chamber?
- (ii) Do we want to move presentation of the Autumn Statement forward to 29 October?
- (iii) Whether or not we go for the 29 October, do we want to try and repeat the presentation mechanics of last year or go for some alternative?

I think it helps to decide on (i) before looking at the others. With no Star Chamber it may well be that the Treasury could cope with the 29th announcement. But we cannot guarantee that a Star Chamber would (with only two meetings to do it in) clear the decks in time. Michael Scholar is examining this.

Star Chamber? There are two issues here: money and presentation.

Money. We have three programmes left: Aid, Wales and Health. On aid we have an offer which is within a stone's throw of forecast outcome. Star Chamber in past years has been pretty robust on aid and we might yet squeeze a bit more, but probably not a lot. I am sceptic about the need to kneecap Mr Walker.

Health is the only major outstanding issue. On the one hand, Star Chamber might screw him down a bit further on demography.

The only other major item worth a scrap is the abolition of welfare milk (worth £90 million in year 2). Perhaps we could get a bit more from Star Chamber than a bilateral deal: Mr Fowler would be particularly robust.

On the other hand, in year 1 we are within spitting distance: they are offering £700 million against our forecast outcome of £660 million. Any numbers seem rather token for years 2 and 3. Next year and subsequently we will undoubtedly be besieged by even larger bids on health, many of them unstoppable: AIDS, Review Body pay, the deflator, FPS demand, even before Mr Moore thinks up some sexy political initiatives.

All in all, we might save a fractional amount but certainly not a lot if we assemble a Star Chamber.

Presentation. Would the Treasury look feeble if we didn't have a Star Chamber? I doubt it. We have some good numbers with which to defend ourselves. A £2 billion increase in the planning total is at the bottom end of press speculation. The new ratios will also look good [$42\frac{3}{4}/42/41\frac{1}{2}/41\frac{1}{4}$]. We also have some tough-looking decisions to point to: electricity prices, freezing of child benefit, water charges, in addition to opticians/dentists in the primary health care bill, to be announced shortly afterwards.

There are some clear presentational advantages with not having a Star Chamber. From the Treasury's point of view, a Star Chamber-free settlement this year would add to the gravitas and credibility of the bilaterals next year. We could put it about that these days merely showing colleagues the instruments of torture is enough to make them recant.

From the Government as a whole's point of view there is the benefit that we are seen to be united.

Statement on 29th? Assuming Star Chamber/Whitelaw has cleared the decks I see advantages in this. We would preempt speculation and possibly leaks. We would also be changing the routine:

the more we stick to the same routine the more hemmed we will be in subsequent years. But, of course, we need Michael Scholar's advice on whether we can do all the preparatory work in time.

Publication of Material. On grounds of changing the routine alone I favour avoiding doing what we did last year. There are also mechanical problems. But, whether we go for the 29th or the 5th we must keep the initiative. To do this we need to put out enough on the Thursday to satisfy the Press's appetite. (e) of Robert Culpin's paragraph 6 would achieve this. I have not taken account of any clash with BP, nor problems that may lurk in preparation of the forecast.

Aut.

A G TYRIE

UNCLASSIFIED

pwp



FROM: A C S ALLAN

DATE: 15 October 1987

MR GIEVE

cc: PS/CST
PEX
Mr Scholar
Mr Hawtin
Mr D J L Moore
Mr Potter
Mr Instone
Mrs Brown
Miss Evans
Mr Fellgett
Mr Tarkowski
Miss Walker
Mr G C White
Mr Tyrie

AUTUMN STATEMENT: PUBLIC EXPENDITURE TABLES

The Chancellor discussed briefly with you yesterday Miss Walker's submission of 13 October.

2. The Chancellor felt the columns should be rearranged, provided there was space, to show three groups

- (i) First, 1986-87 outturn, 1987-88 estimated outturn and the increases between these two.
- (ii) Second, the three columns for the new plans for 1988-89 to 1990-91.
- (iii) And third, the changes from the January 1987 White Paper for 1987-88, 1988-89, and 1989-90.

3. The Chancellor also felt that there was unnecessary duplication between Tables 1 and Table 4, demonstrated by the fact that the lines for the Reserve, for privatisation proceeds and for adjustments needed to be repeated. He suggested that one solution would be to change Table 1 so that it referred only to figures for Central Government, the breakdown of local authorities' and public corporations' expenditure being included in Table 2 and 3



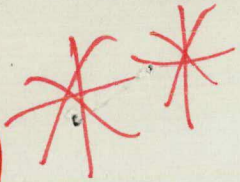
respectively, and with the ^{iv}derivation of GGE being transferred to Table 4. You said that the presentation proposed in Ms Walker's note deliberately highlighted Table 1, so as to avoid giving too much emphasis to the very arbitrary departmental breakdown of the plans for local authority spending. The Chancellor accepted this point, but asked you to reconsider what might be done to ease the duplication.

4. The other points the Chancellor made were

- (i) He had found Table 3 slightly odd, in that the departmental breakdown of public corporations was not a very familiar concept. He thought it needed more explanation, and perhaps some cross references to the table giving nationalised industries EFLs.
- (ii) He thought it was odd that we gave a current/capital breakdown for local authorities but not for Central Government: that would inevitably lead to pressure for us to provide capital spending figures for Central Government. But it was not clear that there was an easy way through this.
- (iii) "although this may not be the case" should be deleted from the footnotes to each table.
- (iv) In Table 4, the explanation of should presumably refer to public corporations not nationalised industries.

5. You said you would provide further advice on these points as soon as possible.

ACSA



Thank.

I am not certain with (i).
X is not precise what we do
people with not 1987-84
allium with 1988-89 Plans,
from wh. whole not conclusion

with

The not drawn since the not
is unallocated in the not
to different in the not
where for so pos. not

I am so certain with (i).
This option is
concerned.
OK

However, I wd like to
see some this option,
I'd like to see you
with actual figs (a bit
guesses) a fact case,
I'd like to see
I'd like to see
I'd like to see



Ch

Thinking on presentation,
I can see some disadvantages
of throwing the spotlight on
Table 1: the two largest
additions will be LA
relevant ~~to~~ and social
security (around £1 billion
each). That is a bit
harder to present positively,
as compared to a full
departmental breakdown (ie
Table 4), which lets half
of LA spending be shown as
DES etc.

~~There is a risk that this will be seen as a~~
// over
side

~~xxxxxxxxxxxxxxxxxxxxxxxxxxxxxxxx~~

I am a bit torn over this :
my ex-LG instruct tell
me table 1 is a big
improvement since it shows
more clearly the lts under
CG control & LA control .

But I am inclining back
towards the more favourable
presentation ^{of the option}, you suggested
to Tom yesterday (ie
tables of CG, LA, PCs & Total)

AA

*papers
desk*

FROM: JOHN GIEVE

DATE: 15 October 1987

CHANCELLOR OF THE EXCHEQUER

cc Chief Secretary
PEX
Mr Scholar
Mr Hawtin
Mr D J L Moore
Mr Potter
Mr Instone
Mrs Brown
Miss Walker
Miss Evans
Mr Fellgett
Mr Tarkowski
Mr G C White
Mr Tyrie

AUTUMN STATEMENT: PUBLIC EXPENDITURE TABLES

Following your comments yesterday, I attach a revised version of the Autumn Statement tables. The main changes are as follows.

i. We have reintroduced the column showing the change from 1986-87 to 1987-88. We have put this between the columns for the two years rather than to the right of the 1987-88 column for two reasons.

X | First we think readers will be interested in the run of figures from 1987-88 through the three years of the Survey period so we do not wish to create a break between 1987-88 and 1988-89. Secondly if we do create three blocks of three columns it may lead readers to assume that the three columns of changes from the last White Paper related to the three Survey years where as in fact they relate to 1987-88 and the first two of the Survey years.

ii. We have eliminated the repetition of the reserve, privatisation proceeds, and planning total figures by deleting them in table 4. As I explained we are keen to retain them in table 1 and to make that the main focus of attention because it shows the breakdown by spending authorities.

iii. We have corrected the heading to Table 4.

iv. We have added a footnote to Table 3 to explain that for most public corporations (but not all) it is external finance that counts

as public expenditure and to cross-refer to the separate table which will show 1988-89 EFLs for the nationalised industries. We will also amend the footnote on the territories.

2. We have considered whether to amalgamate the lines for local authority capital and local authority other current in table 1. We could do that but it would be an odd mixture of Housing Benefit, student awards and net capital. We would prefer to show capital separately both for that reason and because it is a separate control total and as in previous years, we intend to give the main capital figures for local authorities in the text. We do not think it is difficult to avoid giving figures for central government capital spending because that is not controlled in the same way but rather by departmental cash limits. However we do plan to include a broad statement in the text on the overall provision for public sector capital spending, again as we did last year.

3. You questioned the grouping all public corporations together in Table 3. One option would be to replace it with a table like 2.3.A from the last Autumn Statement (copy attached) restricted to the nationalised industries. This would still be grouped by sponsoring department because we do not wish to spell out the external financing requirements for individual industries for the later years. Indeed it was partly for that reason that we had proposed to group all public corporations together. On balance we would prefer to stick to that format but to cross-refer to the table of EFLs for 1988-89 for individual industries.

4. If you are content with the revised formats we would propose to circulate them to departments tomorrow for information.

John Gieve

JOHN GIEVE

TABLE 1: PUBLIC EXPENDITURE

	New estimates and plans						Change from		
	£million						January 1987 White Paper(1)		
	1986-87 OUTTURN	CHANGE 1986-87 TO 1987-88	1987-88 ESTIMATED OUTTURN	1988-89 PLANS	1989-90 PLANS	1990-91 PLANS	1987-88	1988-89	1989-90
CENTRAL GOVERNMENT									
Ministry of Defence									
FCO - Diplomatic wing									
FCO - Overseas Development Administration									
European Communities									
Ministry of Agriculture, Fisheries and Food									
Department of Trade and Industry									
Export Credits Guarantee Department									
Department of Energy									
Department of Employment									
Department of Transport									
DOE - Housing									
DOE - other environmental services									
Home Office									
Legal departments									
Department of Education and Science									
Office of Arts and Libraries									
DHSS - health and personal social services									
DHSS - social security									
Scottish Office									
Welsh Office									
Northern Ireland									
Chancellor's departments									
Other departments									
TOTAL CENTRAL GOVERNMENT									
LOCAL AUTHORITIES									
of which -									
Relevant expenditure									
Other current									
Capital									
PUBLIC CORPORATIONS									
of which -									
Nationalised industries									
Other public corporations									
Reserve									
Privatisation proceeds									
Adjustments									
PLANNING TOTAL									
General Government gross debt interest									
Other national accounts adjustments									
GENERAL GOVERNMENT EXPENDITURE									

TABLE 3: PUBLIC CORPORATIONS*

	New estimates and plans						Changes from January 1987 White Paper		
	£million						£million		
	1986-87 OUTTURN	CHANGE 1986-87 TO 1987-88	1987-88 ESTIMATED OUTTURN	1988-89 PLANS	1989-90 PLANS	1990-91 PLANS	1987-88	1988-89	1989-90
Ministry of Defence									
Overseas Development Administration									
Ministry of Agriculture, Fisheries and Food									
Department of Trade and Industry									
Department of Energy									
Department of Employment									
Department of Transport									
DOE - Housing									
DOE - Other environmental services									
DHSS - Health and personal social services									
Scottish Office									
Welsh Office									
Northern Ireland									
Chancellor's departments									
TOTAL									

*For nationalised industries and most public corporations the planning total includes their external finance. For nationalised industries' external financing limits for 1988-89, see table .

Table 2.3.A Nationalised industries' external financing by department

	£ million													
	Outturn	Cmnd	Estimated	Changes	Changes	Cmnd 9702		New plans			Changes between			
	1985-86	1986-87	1986-87	from 1985-86	from plans	plans	plans	1987-88	1988-89	1987-88	1988-89	1989-90	1987-88	1988-89
Ministry of Defence	-2	—	—	0	—	—	—	—	—	—	—	—	—	—
Ministry of Agriculture, Fisheries and Food	16	10	20	0	0	10	10	20	20	20	10	10		
Department of Trade and Industry ¹	388	120	90	-300	-30	70	-70	60	-100	-100	-10	-30		
Department of Energy	-197	-690	-690	-490	0	-1 140	-880	-580	-510	-660	560	370		
Department of Transport ²	1 033	1 090	1 110	80	20	1 020	990	1 050	910	860	30	-80		
DOE—Other environmental services	214	140	120	-90	-20	30	30	50	40	-10	10	0		
Scotland ³	233	240	240	10	0	0	-120	90	-20	-170	90	100		
Wales ⁴	28	20	20	-10	0	10	10	10	10	10	0	0		
Total⁵	1 712	530	510	-1 200	-20	10	-30	690	350	-60	680	380		

¹ The figures for 1985-86 include all receipts from Post Office in respect of pre paid envelopes.

² The figures for 1985-86 include public expenditure which is both local authority relevant current spending and nationalised industries' external finance. The sum involved is £115 million. In 1986-87 and subsequent years the public expenditure figures count this money as local authority relevant only.

³ As for footnote ²; the sum involved is £40 million.

⁴ As for footnote ²; the sum involved is £7 million.

⁵ Totals include an allowance of -£400 million in 1986-87 in respect of British Gas Corporation and British Airways Board which are due to be privatised in that year; similarly, allowances are included for National Bus Company and BAA plc (formerly British Airports Authority) in 1987-88 and for National Bus Company in 1988-89.



Pup

FROM: A C S ALLAN
DATE: 16 October 1987

MR GIEVE

cc Chief Secretary
PEX
Mr Scholar
Mr Hawtin
Mr D J L Moore
Mr Potter
Mr Instone
Mrs Brown
Miss Walker
Miss Evans
Mr Fellgett
Mr Tarkowski
Mr G C White
Mr Tyrie

AUTUMN STATEMENT: PUBLIC EXPENDITURE TABLES

The Chancellor was grateful for your minute of 15 October.

2. He is not content with your repositioning of the columns. Giving a run of figures from 1987-88 through the three years of the survey period is what we do not want to do: it leads people to compare 1987-88 outturn with 1988-89 plans, from which wholly false conclusions will be drawn, since the Reserve is allocated in the former and unallocated in the latter. The "difference" column must therefore be positioned where the Chancellor had earlier indicated.

3. He is content with the rest of your proposals so far as this option is concerned. However, he would like to see both this option, and the option he put to you (paragraph 3 of my note of 15 October) with actual figures (or best guesses) in each case, before he finally decides which to plump for.

ACSA

A C S ALLAN

Don't yet know -
doing some contingency
planning + may
accelerate it



Alex,

↘

Bodger rang.

were we bringing f/ward
AS in view of progress on
pub exp. I refused to be
drawn. (am still uncertain,
couldn't do anything with
Am away etc). He needs
to know cos fixing date for
Primary Health care WP
which needs to be post AS.

We will have to decide what
to tell Private Offices - they
won't get to hear.

CR

FROM: A TURNBULL
DATE: 19 OCTOBER 1987

HEADS OF EXPENDITURE GROUPS

cc PS/Chancellor
PS/CST
Mr F E R Butler
Mr Anson
Mr Monck
Mr R I G Allen
Mrs R Butler
Mr Gieve
Mr Pratt
Miss Walker

AUTUMN STATEMENT

I attach a copy of a letter I have sent to PFOs, giving them warning of the Chancellor's wish to keep open the option of bringing the Survey onto the Cabinet agenda for 29 October, with the Autumn Statement on Tuesday 3 November. To achieve this it will be necessary, as far as possible, for the figures to be published in the Autumn Statement to be agreed between divisions and departments by close of play on Wednesday.

2. We expect to confirm to departments on Thursday or Friday this week whether public expenditure is to be on the Cabinet agenda of 29 October. At that stage we will set out a timetable for preparing Press Notices, clearing them with the Treasury and delivering the final versions.

3. The letter to departments does not mention the possibility that, in addition to the full Autumn Statement on 3 November, the Chancellor may provide some details on the outcome of the Survey via a PQ on the afternoon of 29 October. A final decision on this has yet to be taken. (It would not, in general, affect departments as we would call for their Press Notices on 3 November.)

4. Treasury divisions should say nothing to departments at this stage about this further possibility. Could they also avoid entering into discussion with departments on the state of negotiations with other programmes.

Mr Burgner	Mr Scholar
Mr Moore	Mr Mountfield
Mr Edwards	Mr Hawtin
Mr Gilmore	Mr Luce
Mr Robson	Miss Peirson

AT

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H M Treasury

Parliament Street London SW1P 3AG

Switchboard 01- 270 3000
Direct Dialling 01- 270 4499..A Turnbull
Under SecretaryJ G Ashcroft Esq
Ministry of Defence
Room 6261
Main Building
Whitehall
LONDON SW1A 2HB

19 October 1987

Dear Gents,

AUTUMN STATEMENT

The Chancellor's has asked us to plan on a basis which would keep open the possibility of bringing the 1987 Public Expenditure Survey onto the agenda for Cabinet on 29 October, with the Autumn Statement on Tuesday 3 November.

To achieve this Treasury divisions and departments will need to accelerate the process of agreeing the figures to be published. Treasury divisions have been asked where possible to complete this by close of play on Wednesday 21 October. I would be grateful for your help in resolving any outstanding issues, including PES transfers, as soon as possible.

For the time being, I would be grateful if knowledge of the possibility of an earlier completion of the Survey could be confined to those who need to know. I would expect the Treasury to be able to confirm the timetable for the Cabinet meeting and Autumn Statement before the end of this week, at which point we would issue guidance on the preparation of Press Notices.

I am copying this letter to those on the attached list. [FOS OF MAIN DEPTS]

*Yours sincerely**Andrew Turnbull*

A TURNBULL

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10

FROM: MISS C EVANS
DATE: 19 OCTOBER 1987

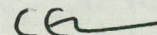
MR SEDGWICK
MR TURNBULL
MISS PEIRSON
MISS O'MARA
MR SCOTTER
MR DYER

cc Mr Scholar
Mr A C S Allan
Miss Rutter
Mr R I G Allen
Mr Saunders
Mr Rawlins
Mr S J Davies
Mr McIntyre
Mr Gieve
Miss Walker
Mr P Allum
Mr Tyrie (for backbenchers'
brief)
Mrs Burnhams

AUTUMN STATEMENT: CORE TIMETABLE

... I attach a revised timetable which assumes that the Autumn Statement will be on Tuesday 3 November with the public expenditure totals announced during Treasury questions on 29 October. This reflects discussion with EA, GE, ST and ETS. Could I have any comments as soon as possible please.

2. Mrs Burnhams will circulate a detailed aide memoire as soon as possible.



MISS C EVANS

Week -2	Key Events	Autumn Statement	Public Expenditure
Monday 19 October		FP send mockup of Chapter 2 to printers	[Star Chamber]
Tuesday 20 October	Provisional money figures	PEM meeting on draft IAF (Chapter 1)	[Star Chamber]
Wednesday 21 October	House of Commons return	ST submission to CX on Chapter 3 FP submit Chapter 4 to CX Printers send Chapter 2 mockup to FP Draft IAF to CX FP submit first draft of oral statement to Chancellor	
Thursday 22 October	Cabinet and Departments informed of AS timetable [Benefit uprating announcement]	Chancellor meeting on Chapter 1 Chancellor comments on Chapters 3 & 4 Chapters 3 & 4 to printers by 4pm	GEP submits draft Chapter 2 GEP submit draft paper for Cabinet to Ministers GEP commission briefing for Cabinet
Friday 23 October	September trade figures		PS/CX writes to depts with timetable for press notices

Week -1

Key Events

Autumn Statement

Public Expenditure

Monday 26 October	Stock Exchange speech	Printers send 1st proof of Chapters 3, & 4 to FP by 6pm Chapter 1 to printers by 6pm	Revised Cabinet paper to Treasury Ministers GEP finalise briefing for 1st Order
Tuesday 27 October		Chapter 2 to printers by 6pm	GEP submit Cabinet briefing to Ministers GEP submit final version of PQ to Ministers Cabinet paper circulated
Wednesday 28 October	EP offer closes	Revised Chapters 3 & 4 to printers by 12 Chapters 1 & 2 from printers by 6pm FP submit to CX	
Thursday 29 October	Public expenditure Cabinet Treasury 1st Order Questions Bank lending figures	Revised Chapters 1 & 2 to printers by 4pm	
Friday 30 October		Printers send book proofs (Chapters 1-4) to HMT by 6pm	GEP submit draft briefing to Ministers
Saturday 31 October		Book proofs checked by authors HMT return book proofs to HMSO by 12	

Week 0

Key Events

Autumn Statement

Public Expenditure

Monday
2 November

Read at press
Oral Statement finalised & copied
Backbenchers' brief finalised
& copied

Tuesday

Reserves published

Oral Statement
AS document published

FROM: P N SEDGWICK
 DATE: 19 OCTOBER 1987

CHANCELLOR

cc Chief Secretary Mr Bottrill
 Financial Secretary Mr S Davies
 Paymaster General Mr Ciove
 Economic Secretary Mr Hibberd
 Sir P Middleton Mr Matthews
 Sir T Burns Mr Mowl
 Mr F E R Butler Miss O'Mara
 Mr Anson Mr Allum
 Mr Cassell Ms C Evans
 Mr Kemp Mr Hudson
 Mr Monck Mr Owen
 Mr Evans Mr Ritchie
 Mr Moore Mr Cropper
 Mr Odling-Smee Mr Tyrrie
 Mr Peretz Mr Call
 Mr Scholar
 Mr Turnbull
 Mr R Allen

Ch
PEM has a meeting
& discuss this tomorrow
(Tuesday) & you have
one later in the week
AA

CHAPTER 1 OF THE AUTUMN STATEMENT : ECONOMIC PROSPECTS FOR 1988

I attach a draft of Chapter 1 - the Industry Act Forecast (IAF) - of the Autumn Statement. We have discussed it with Sir T Burns. Sir P Middleton is holding a meeting to discuss it tomorrow, and we are to discuss it with you on Thursday. This note considers the main presentational and other issues.

Timetable

2. Advancing the proposed date of the Autumn Statement has increased timetable constraints. I am informed by FP that a fairly final version of Chapter 1 must go to the printers on Monday of next week. There will then be very limited scope for changing the format of tables, though it will still be possible to alter the numbers in the tables and make small changes to the text.

The order of sections

3. Unlike the IAF in the FSBR, chapter 1 of the Autumn Statement contains a final section on fiscal conditions. Given this extra section, it makes more sense to place the discussion of financial conditions just before it (as in the 1986 AS) rather than immediately after the summary (as in the FSBR).

4. Last year we agreed that references to the exchange rate (plus the accompanying chart) should come at the beginning of the section on trade and the balance of payments, a practice that is followed in the attached draft. (The assumption on the exchange rate does of course appear as well in the summary section at the beginning.)

The forecast numbers

5. draft includes forecasts for the main aggregates as agreed at your meetings last Thursday and Friday. There are, however, still a number of loose ends, and the detailed numbers in the tables may well change. The main numbers on which decisions were taken were

RPI	4½ per cent in 1988(4);
GDP	4 per cent in 1987;
GDP deflator	4¼ per cent in 1987-88; 4½ per cent in 1988-89;
PSBR	£1b. in 1987-88; same PSBR/GDP ratio assumed for 1988-89 as the forecast outcome for 1987-88;
Planning Total	a shortfall of £1¼b. in 1987-88.

6. There are still a few of the more important numbers on which final decisions have not been taken.

(i) As pointed out by Sir T Burns, it looks as if growth of GDP in 1988 may have to be 3½ per cent (rounded up) following the adjustments to the forecast for exports to achieve a current account of £-3½b. in 1988. This, together with the decisions on the GDP deflator, would produce money GDP growth of 8¼ and 8 per cent in 1987-88 and 1988-89 respectively.

(ii) By the time the Autumn Statement is published the trade figures for September, (and therefore the third quarter of 1987) will have been released. It will be possible to interpret the forecast trade balance for 1987 as a whole as an implicit forecast of 1987(4). Invisibles figures for 1987(3) will not be published until December, although CSO projections for July, August and September will have already been published with the trade figures. It will be necessary, to see whether a forecast of a current account of £-2½b. for 1987 as a whole seems sensible in the light of the published data for the first three quarters.

(iii) GEP and the forecasters are still working on the figures for the "adjustments" - notably debt interest - between the planning total and general government expenditure.

7. We are not yet able to produce final figures for the categories of expenditure in table 1.13. A version of the final table showing half

I have told Terry he must do 2/3 or 2½/3½ not 2/3½

||

yearly expenditure and GDP at constant prices (table 1.15 in the last AS) will be circulated later.

Policy and other assumptions

8. The recent internal forecast assumed an average North Sea oil price of \$18 until the end of 1988. (The normal quality differential between the average North Sea price and the Brent price - the one most frequently monitored in the press - would imply a Brent price of \$18½.)

9. The draft IAF uses the same oil price assumption as the internal forecast. This is higher than the \$15 assumed in published forecasts since March 1986, but a little below recent market levels. The Autumn Statement will contain an estimate of North Sea revenues only for financial year 1987-88. North Sea revenues for 1987-88 will be determined, inter alia, by prices in calendar 1987, the bulk of which are already recorded. The oil price assumption does influence the forecasts for the balance of trade in oil in 1987 and 1988 shown in table 1.3.

1 pcpo X more a stylized ground than anything else.

see PEM point (c)

10. The draft has two formulations for the exchange rate assumption (paragraphs 1.6 and 1.20). One is the same as used in the 1987 FSBR ("the exchange rate will remain close to its current level"). The second is a more explicit assumption that the currencies of other countries will behave as envisaged in the Louvre agreement.

11. Of the two options the second runs the greater risk of being seriously out of date after the AS is published. It is quite possible for there to be important exchange rate changes between other currencies, with either the sterling index or, say, the £/DM remaining constant. It is worth noting that the first formulation does not specify which sterling exchange rate is assumed to remain constant.

12. Chart 1.3, which shows exchange rate movements, differs from that in recent versions of the IAF in that it omits the oil price and includes the £/DM rate. (At the back of the draft there is an alternative version of this chart over a slightly longer time period.) There is a reference in paragraph 1.20 to the recent stability of the £/DM rate.

PEM: prefer 1.3 as is.

But looks too smooth (cf AS last year)

Exports and the UK's share of world trade

13. We would like to include a chart (chart 1.4 in the draft) showing both the recent trend in export volumes and the forecast. There was a similar chart in the 1986 AS (Chart 1.4), though not in the 1987 FSBR.

With export volume now picking up, following a period of flatness, this chart could be helpful.

14. We would also like to change the conventional version of the chart showing the share of UK exports in world trade in manufactures. The proposed version (Chart 1.5) includes (for volumes only) the share of UK exports of manufactures in

ie lose value share.

(a) the main developed economies exports of manufactures (weighted by UK market share),

and (b) total world trade in manufactures including exports by NIC's and other developing countries.

max val for 1

Question is: do two series show anything v different?

Both measures show very creditable UK export performance in recent years and in 1988 by historical standards.

15. There are problems in relying in public presentation solely on the traditional measure of the UK's share of world trade. With many of the other developed economies becoming less competitive and efficient, and losing share of world markets, it is becoming increasingly difficult to regard the traditional definition as a measure of 'world' trade. Both measures of world trade in manufactures appear in table 1.1 in the draft IAF. The forecast for 1988 has exports of manufactures growing slightly slower (at 4½ per cent) than total world trade in manufactures in 1988 (at 5 per cent), but above the growth of the traditional measure of main developed countries' exports of manufactures (at 3½ per cent).

PEM: prefer new ones. Add memo item for PSBR units prior process added back.

Probably OK: we had spend ratios for units Table 1.13 last year.

Public finances

16. We propose some changes to the tables for public finances that were used in last year's AS. Although the purpose of last year's table 1.13 was obvious, aesthetically pages 22 and 23 of the AS were a mess. This year we propose dropping old table 1.13, and have re-arranged old tables 1.10 to 1.12 to show both the FSBR and AS forecasts. The differences between the two forecasts are not given explicitly, but can easily be worked out. This presentation would bring the AS into line with the FSBR. (See for example 1987 FSBR tables 1.2 and 6.1.)

17. The draft has rounded the numbers in the public sector tables in chapter 1 to the nearest £0.1bn., in line with the practice in the FSBR, eg in table 1.2 of the 1987 FSBR, though not in line with the practice in the 1986 AS. It is easier to use unrounded numbers in such tables; rounding to the nearest half billion can cause adding up

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problems and odd differences between the latest numbers and those in the PSBR. We will need to check the numbers in the draft carefully for consistency with those that GE will be using in chapter 2 of the AS.

18. For the record the forecast in the attached draft assumes the same cut in personal taxes in the 1988 budget as was used in the recent internal forecast. The adjustments (to the internal forecast) to make the PSBR in 1988-89 similar to that to be published for 1987-88 are almost exclusively on government receipts. None of this is disclosed in the draft or can be deduced from the material in it.

Investment

19. With private investment so buoyant there is a case for an investment table. There was a table (3.5) in the 1987 PSBR, though not in the 1986 AS. One reason for reticence at this time of the year is the uncertainty attaching to the figures for general government and the difficulty of reconciling these with the public expenditure figures in chapter 2 of the AS. We have not included a table in the draft. A table showing components of total investment is attached at the end for reference. Figures for the growth in total investment will appear in tables 1.13 and 1.14.

PEM: of doubtful use.

not word about this: doesn't look v impressive

Other new charts

20. The draft has two new charts. Chart 1.8 shows output for services, construction, and manufacturing; it shows that manufacturing and construction output are now back to the levels in the late 1970s, while services output has risen throughout the period. Chart 1.9 shows the personal saving ratio and employers' contributions from 1970 to 1987 (the final observation being partly forecast). The behaviour of personal saving adjusted for changes in employers' contributions can be deduced from this chart, though not the forecast rise for 1988.

P.N.S

P N SEDGWICK

ECONOMIC PROSPECTS FOR 1988

snappy
Need introductory sentence (a bit year) ✓

SUMMARY

Demand and Activity

1.1 The economy has been growing ~~rapidly~~ ^{strongly} during the past year. GDP growth in 1987 is likely to be about 4 per cent, with manufacturing output growing at over 5 per cent. Domestic demand has continued to grow at much the same rate as in 1986, but with some change in ^{its} composition: investment growth has been higher and consumers' expenditure growth lower ^{than in 1986}. Non-oil exports have increased strongly. In 1988 GDP is forecast to grow by 3½ per cent.

Labour market

1.2 Employment has ^{also} risen strongly ^{over} in the last year, ^{with} over the past fourteen months unemployment has fallen by almost half a million; the fastest ^{annual} reduction in the post-war period. There are good prospects for a continued fall.

Check/ could
400,000

Inflation

1.3 ~~RPI~~ inflation ^{is expected to remain low} has risen a little during the past year, but should fall to 4 per cent in the fourth quarter of 1987, as expected at budget time. It is ^{forecast} likely to rise to 4½ per cent by the fourth quarter of 1988, reflecting some temporary factors. ^{Unin} Labour costs have increased slowly over the past year, and a further small increase is expected in 1988.

Retail Prices Index (RPI) is forecast at 4 1/2% in the fourth quarter

World Economy

1.4 GNP in the main industrial countries is likely to grow by a little over 2½ per cent in both 1987 and 1988. World trade in manufactures has picked up this year and should grow at around 5 per cent in 1988, reflecting the faster growth of industrial production in the industrial countries. ^{Inflation is expected to remain low, although there is a risk of a rise in consumer price inflation in the industrial economies has taken place as the once and for all effect of the oil price fall has dropped out, but the prospect is for inflation to remain low.} Real commodity prices may continue to recover slowly from their depressed levels of last year.

of 1987, as envisaged at the time of the budget, but the temporary 4 3/4% rise in the fourth quarter of 1988.

UK trade and current account

1.5 The UK current account is now estimated to have been in deficit by £1 billion in 1986 following the fall in the oil price. So far in 1987 it has been particularly erratic. ~~Exceptionally favourable figures at the beginning of the year were followed by large monthly deficits as imports rose~~

strongly.] A ~~further current account~~ deficit of £2½ billion is expected this year (about ½ per cent of GDP), in line with the forecast made at budget time. ^{with} The UK ^{is} expected to continue growing ~~more quickly~~ ^{fast} than the ~~main~~ ^{main} other industrial countries for a little while, and a current account deficit of £3½ billion (about ¾ per cent of GDP) is ~~predicted~~ ^{forecast} for 1988.

Assumptions

1.6 The forecast assumes that fiscal and monetary policies are operated within the framework of the Medium Term Financial Strategy (MTFS). It assumes that the exchange rate will remain close to its current level ~~for that exchange rates remain close to their present levels~~, and that ~~the oil price (the North Sea average) will be~~ \$18 a barrel.

~~Total government borrowing (the PSBR)~~ is expected to be about £1 billion in the current financial year. The forecast makes the stylised assumption of a similar PSBR for 1988-89.

WORLD ECONOMY

Recent Developments

1.7 The major seven OECD economies are now in their fifth year of expansion. There was some weakening in ~~average real GNP growth~~ in the second half of 1986, from around 3 per cent a year to just below 2½ per cent, but ~~it~~ ^{growth} now appears to be strengthening a little. ^{of 1.4}

1.8 ~~This~~ ^{world} weakness in ~~growth~~ ^{growth} was largely due to the difficulties of adjusting ^{to} the collapse in oil prices in early 1986 and to large changes in exchange rates. Lower oil prices led oil exporters to cut back their imports sharply. Moreover, with many non-oil commodity prices falling to their lowest post-war levels in real terms, other primary producers also had to restrain their imports severely. As a result, exports from the main industrial countries were depressed, and industrial production rose by only 1 per cent in 1986.

1.9 Domestic demand in the seven major countries grew strongly in 1986, encouraged by substantial terms of trade gains and lower interest rates. It then slowed in the first half of 1987, ~~partly in response to some reversal~~

Some £3 billion below the figure set in the Budget.

12/10

of the earlier terms of trade gains. ^{This} The slowdown was most marked in the US, reflecting the effects of the dollar's depreciation and some tightening of policy. In Japan and Germany the contribution of net exports to growth has become negative following the appreciation of their currencies and this also produced some weakness in private business investment.

memo jumbo explain more clearly

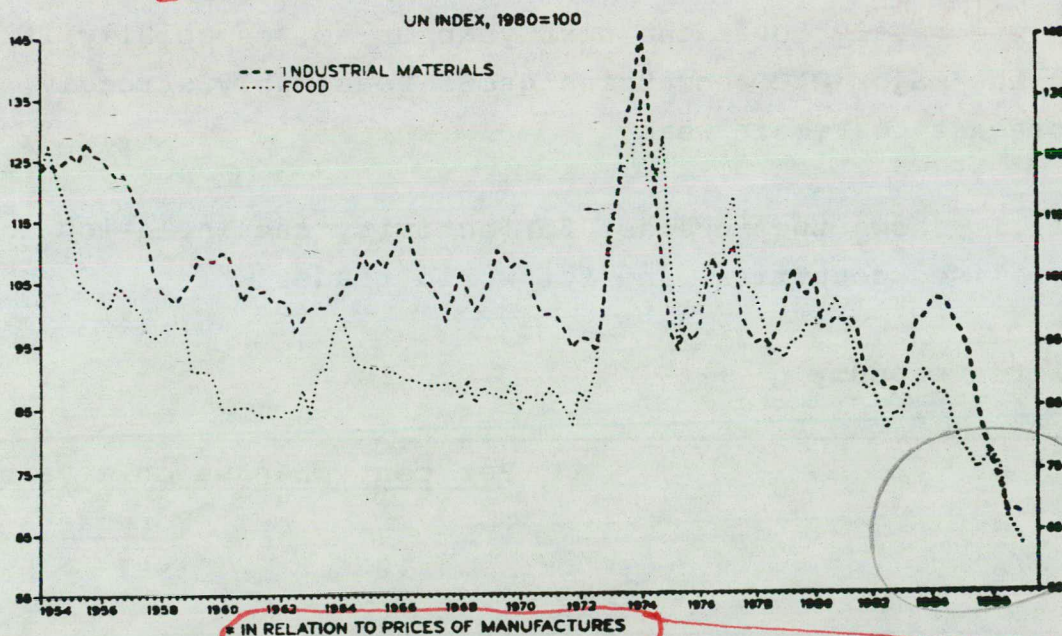
1.10 Helped by the greater exchange rate stability achieved by the Louvre Accord and some strengthening in the demand of developing countries for their exports, activity in the ^{services} major ^{countries} seven appears to be picking up. By June 1987 aggregate industrial production was 3 per cent higher than a year earlier.

This is where you need point about last year's oil price fall drops at a figure

1.11 Consumer price inflation has increased to about 3 per cent as a result of a partial recovery in oil and commodity prices. There has been no pick up in the growth rate of earnings and domestic costs.

from the very low levels reached in 1986.

Chart 1.1: Real commodity prices



of change (of that)

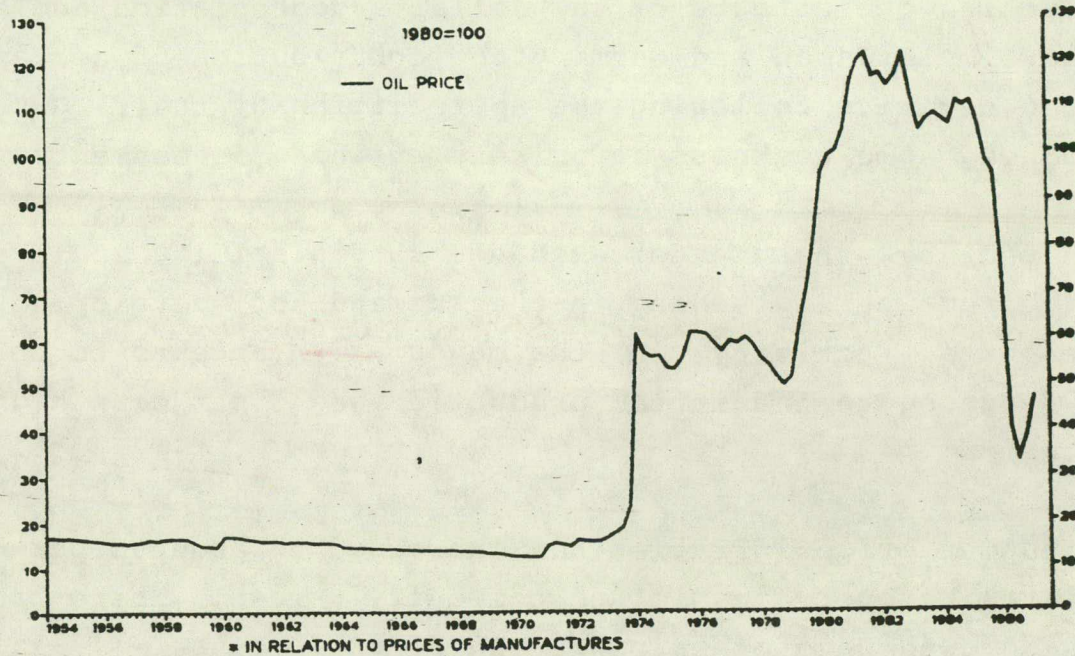
1.12 Recent data show that the current account surpluses of Japan and, to a lesser extent, Germany have now started to decline. In the United States trade volumes are responding to the decline in the dollar, but no clear downward trend in the current account deficit has yet been established.

the current account itself is taking longer to turn round.

1.13 Oil prices rose to over \$20 per barrel for a short time in the summer, partly because of fears about an escalation of the Gulf War, before falling back a little to between \$18-19 per barrel as OPEC production expanded.

Real non-oil commodity prices have recovered somewhat from the extremely low levels reached in the second half of 1986, but they remain well below their historical average. Food prices are particularly weak.

Chart 1.2: Real oil prices



Prospects

1.14 The forecast assumes that North Sea oil prices average around \$18 per barrel until the end of 1988. Real non-food commodity prices may continue to increase ~~moderately~~ ^{slightly} over the next year or so, especially if industrial production in the major OECD countries grows reasonably strongly, but food prices are forecast to remain weak.

1.15 Table 1.1 shows the forecast for activity and inflation in the major seven industrialised countries, and for world trade.

Table 1.1: World economy

	Per cent changes on a year earlier		
	1986	1987	1988
<u>Forecasts</u>			
Major seven countries ¹ :			
Real GNP	2½	2½	2½
Real domestic demand	3½	2½	2½
Industrial production	1	3	4½
Consumer prices	2	2½	3
World trade at constant prices			
Total imports	4½	3½	4½
Trade in manufactures	2	3½	5
Main developed countries' exports of manufactures weighted by UK market share	1½	2½	3½

¹ US, Japan, Germany, France, UK, Italy and Canada

1.16 ~~Inflation is forecast to remain around 3 per cent, higher than in 1986 but below its level immediately before the oil price fall.~~

1.17 The recent fiscal package in Japan and the tax cuts planned in Germany in 1988 should help sustain the growth of their domestic demand. Total domestic demand in the major seven industrial countries is forecast to grow slightly faster than real GNP, but net exports will be much stronger than in 1986, as developing countries' demand for imports continues to recover. Industrial production, ~~which is normally more cyclical than GNP,~~ should grow faster in 1988, helped by the recovery in exports.

1.18 World import volumes are likely to rise by about 3½ per cent in 1987. This is somewhat slower than in 1986 when oil trade was very buoyant following the fall in price. Total world trade in manufactures, on the other hand, has strengthened and may grow by just under 4 per cent in 1987.

1.19 Growth in world trade should be slightly higher in 1988. Imports into non-oil developing countries are expected to grow more strongly, despite the debt problems facing some of these countries, since the export earnings of primary producers will be increased by higher commodity prices, ~~while the exports of the newly industrialised countries continue to be highly competitive.~~ OPEC countries may cease cutting back their imports. Developed countries' imports, are forecast to continue to grow by around 4 per cent. Reflecting this change in the geographical distribution of trade, growth in trade in manufactures is expected to increase to 5 per cent in 1988. Developed countries' exports of manufactures weighted by UK market shares are likely to grow more slowly than total world trade in manufactures as the developed countries continue to lose share to newly industrialised countries.

TRADE AND THE BALANCE OF PAYMENTS

Exchange rates

1.20 Exchange rates between major currencies have ~~fluctuated narrowly in the six months~~ following the Louvre meeting of Finance Ministers of six of the leading industrial countries in February, ~~[but have been somewhat more volatile in the latest period].~~ Sterling has reflected this general stability, ~~{ particularly against the Deutschemark, }~~ moving within a narrow

(PEM(??))

(Remains ^{less} stable)

(larger than UK exports)

V. odd
V. 3/4

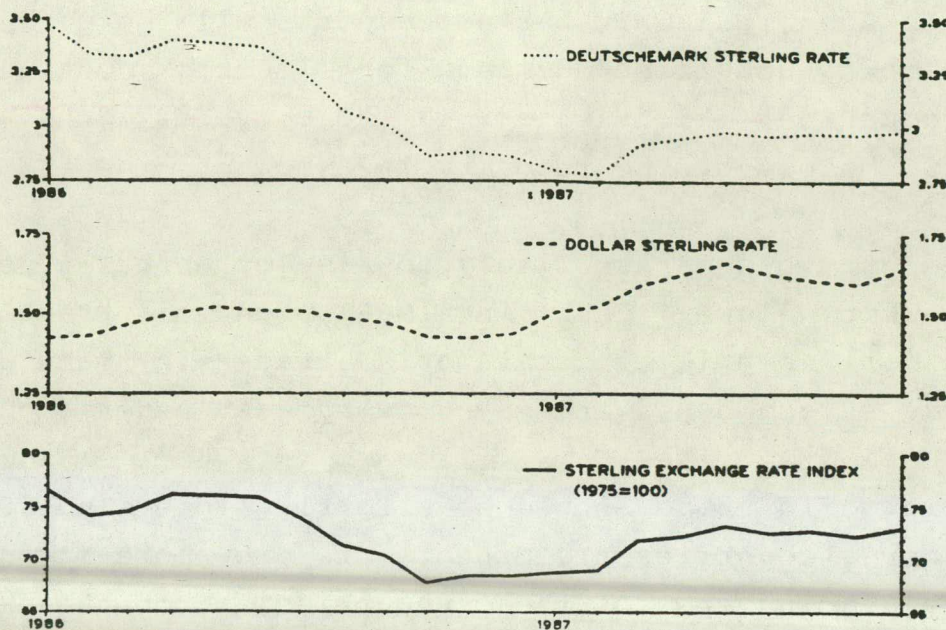
W
-
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W

W

range for several months. The forecast assumes that sterling remain close to its present level [or 'exchange rates remain close to their present levels.]

Chart 1.3: Exchange rates



PEM: This one preferred to one at hand.

Relative costs and prices

1.21 Unit labour costs in the UK rose broadly in line with those of overseas competitors in the year to mid-1987. [With sterling rising in the early months of 1987 there was a partial reversal of the very large gain in competitiveness seen during 1986; but UK labour cost competitiveness remains some 10 per cent more favourable than the average of 1984 and 1985.]

This has meant that the large gain in competitiveness in 1986 has been sustained.

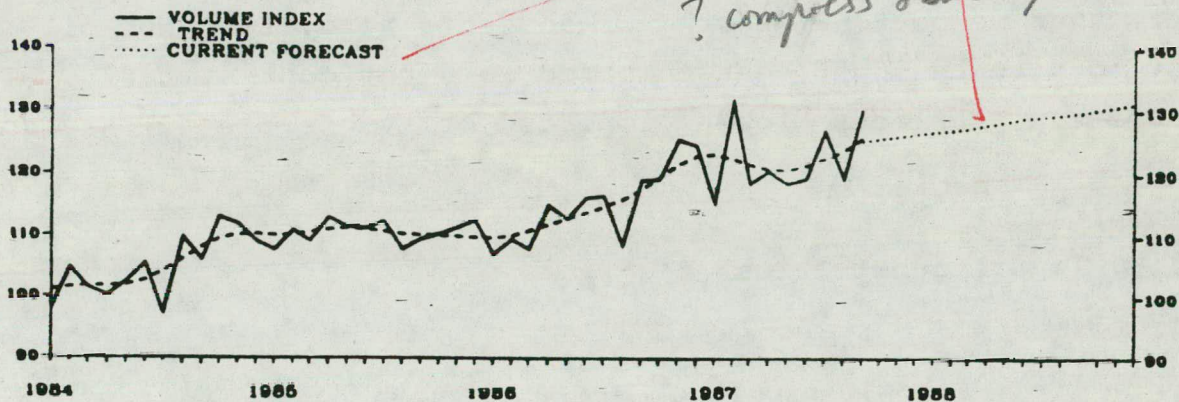
Trade volumes (goods other than oil)

1.22 The volume of ^{UK} manufactured exports, which remained flat in the first half of 1987, has been rising again in recent months and this should continue in 1988 ^{as markets for UK exports expand} [reflecting faster growth in overseas markets]. Total non-oil exports ^{are} (seem) likely to increase by about 4½ per cent in 1988 compared to a projected 7½ per cent in 1987.

100

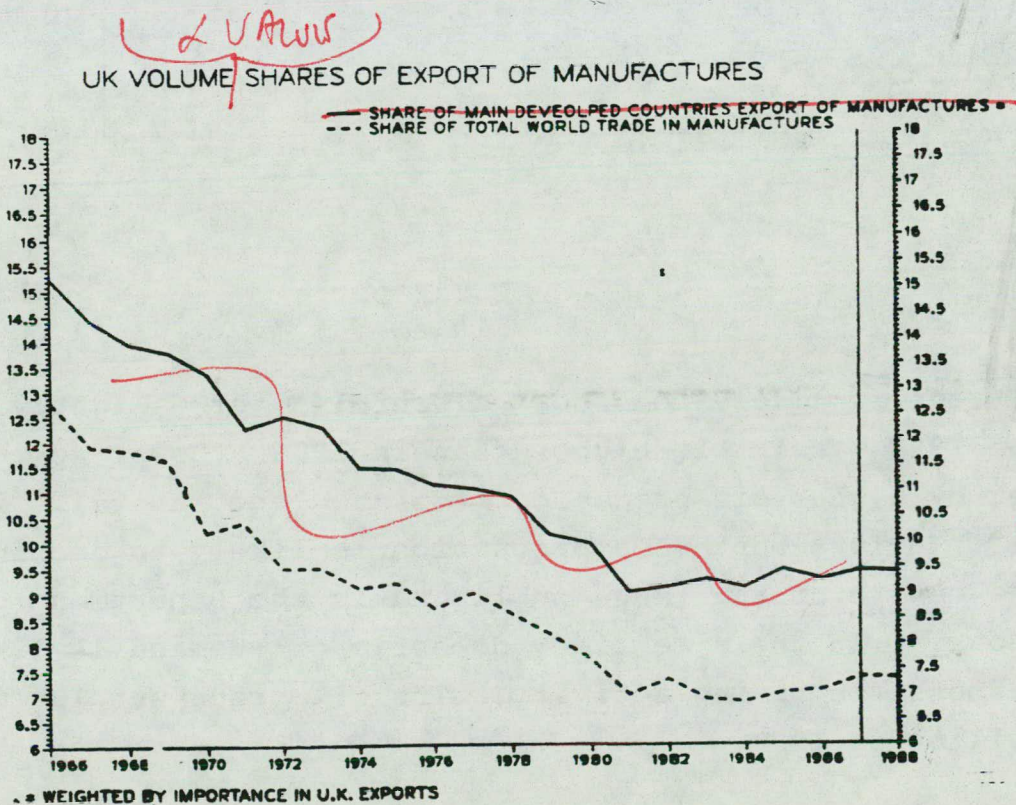
with

Chart 1.4: Export volumes (excluding oil)



1.23 Chart 1.5 shows how the UK's share of the volume of total world trade in manufactures, which declined during the 1970s, has been broadly steady since 1981. The UK's share of developed countries' exports of manufactures has increased slightly since 1981.

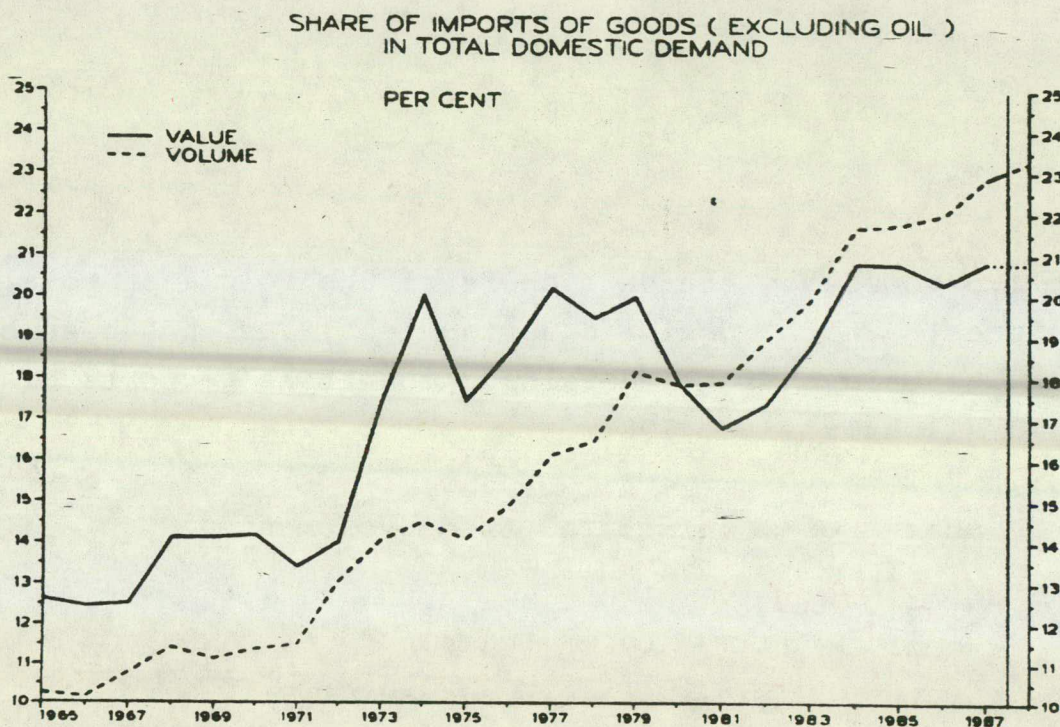
Chart 1.5: UK shares of manufactured trade volumes



*Show value as ...
 not dev. countries*

1.24 Non-oil imports, which fell sharply in the early part of the year, have since risen again rapidly. The out-turn for the year as a whole, however, seems likely to be close to the Budget forecast in spite of the stronger than expected growth of domestic activity. Non-oil imports are forecast to rise by 5½ per cent compared to 8 per cent in 1987. ~~[The fall in growth partly reflects lower imports of vegetable oil and non-monetary gold.]~~

Chart 1.6: Import penetration



Oil trade

1.25 Net oil trade is likely to show a surplus of slightly less than £4½ billion in 1987 - a little higher than in 1986. Lower North Sea output has been offset by higher oil prices ~~[on average]~~ and a fall in domestic demand for oil. In 1988 North Sea production is likely to decline again and be close to the centre of the range published in the Department of Energy's 1987 Brown Book. At the same time, domestic oil demand is likely to rise somewhat in response to rising activity. The oil trade surplus may decline by about £1 billion in 1988.

Trade prices and the terms of trade

1.26 The terms of trade, which fell sharply during 1986, reflecting the fall in oil prices and sterling's depreciation, have recovered somewhat during 1987 as a result of higher oil prices, lower food prices and the rise in the sterling exchange rate. ^{at the start of the year} Little change in the terms of trade from the present level is forecast in 1988.

Table 1.2: Visible trade

Per cent changes on previous year

	All goods			Goods less oil		
	Export volume	Import volume	Terms of trade*	Export volume	Import volume	Terms of trade*
1986	3½	6½	-5½	4	5½	-1
1987 partly forecast	5½	7	1	7½	8	+½
1988	2½	6	1	4½	5½	+½

* The ratio of UK export average values to import average values.

Invisibles

1.27 The ^{substantial} surplus on invisibles seems likely to ^{be} remain ~~substantial~~ this year. The surplus on services should recover from last year's fall, which was attributable partly to a ^{decline} fall in the number of tourists visiting the UK. Net earnings from interest, profits and dividends are expected to be higher despite some apparent narrowing of margins on banking business. These improvements should broadly offset an increase in the deficit on transfers, largely reflecting increased government contributions to the European Community. The invisibles surplus should increase again in 1988 as a result of higher net earnings from interest, profits and dividends, ^{partly} reflecting lower payments abroad by North Sea companies as output falls.

Table 1.3: Current account

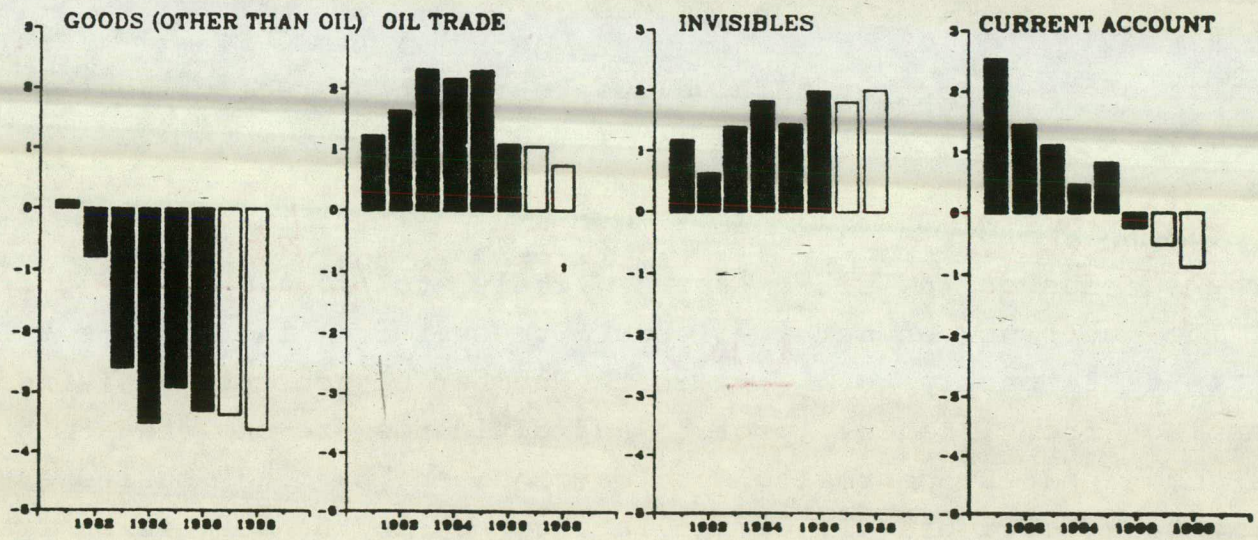
£ billion

	Non oil goods		Oil	Invisibles	Current balance
	Manufactures	Other			
1986	-5½	-7	4	7½	-1
1987 Partly forecast	-7½	-7	4½	7½	-2½
1988 Forecast	-9½	-6	3½	8½	-3½

was in by 1 1/4

1.28 The current account ~~recorded~~ a deficit ~~of~~ £1 1/4 billion in the third quarter of this year after a surplus of £ 1/2 billion in the first half of the year. The forecast for the year as a whole is for a deficit of £2 1/2 billion, in line with the projection made at the time of the Budget. This is equivalent to about 1/2 per cent of GDP. The forecast for 1988 is for a slightly higher deficit. *Higher growth of world trade and more moderate GDP growth in the UK should help to bring the growth of non-oil exports and imports more closely into line during the year and together with a rising invisibles surplus should help to offset a fall in the oil surplus.*

Chart 1.7: The current account of the balance of payments (surpluses and deficits as a per cent of GDP)



Overseas assets

1.29 The stock of UK net overseas assets, which rose by £37 billion to £114 billion by the end of 1986, ~~may show little change this year~~. *is expected to remain at about that level this year*

PEM point (d)

at the end of 1987.

DEMAND AND ACTIVITY

1.30 The UK economy has been growing ^{steadily at} ~~on average at close to~~ ^{at around} 3 per cent a year ^{on average} since early 1981, with only minor fluctuations. ~~in the rate of expansion.~~ ~~During 1984 underlying growth was a little faster than this 3 per cent average, while the period from early 1985 to 1986 saw growth rather below average.~~ Since early 1986 ~~economic activity has quickened again, and~~ ^{slightly} ~~grew~~ ^{the economy} by close to 4 per cent over the year to the first half of 1987. ^{growth has been above this average rate, at close to 4 per cent.}

Do we really need this? (No: save for TSC)

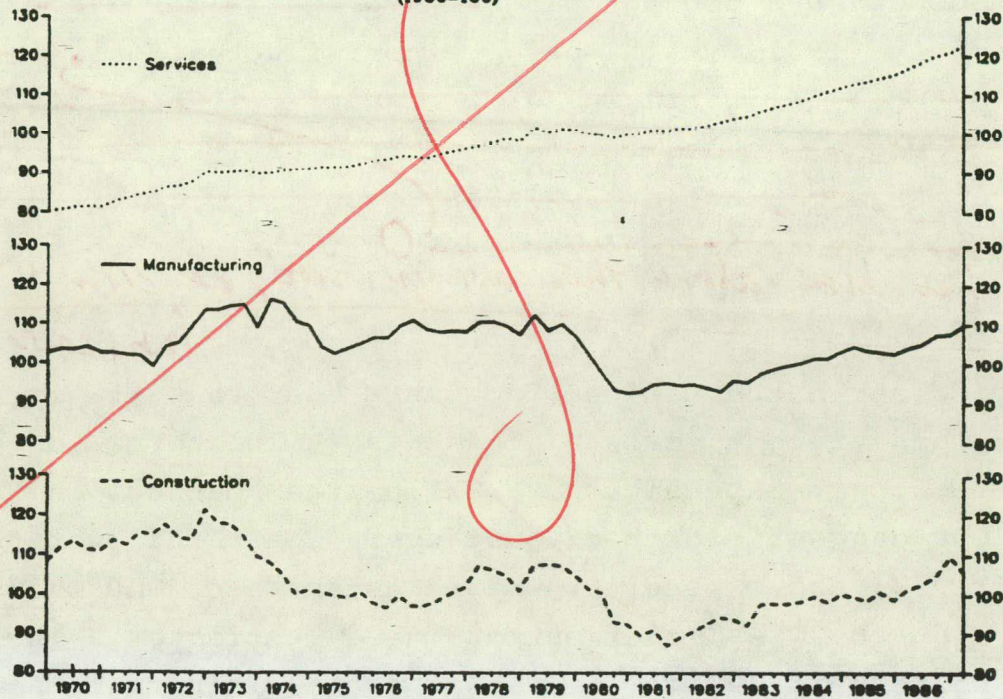
1.31 Discrepancies in the national accounts mean that it is not possible fully to explain recent growth in output in terms of changes in the components of final expenditure. While the output and income based estimates of GDP suggest growth of just over 4 per cent over the year to the first half of 1987, the expenditure-based estimate of GDP shows only about 2½ per cent growth. As the output-based estimate is the most reliable indicator of short-term GDP movements, it seems clear that some components of expenditure are being significantly under-recorded. Thus the recorded slowing down in growth in domestic demand - to under 3 per cent over the year to the first half of 1987, compared with 3½ per cent growth for 1986 - may well in part reflect inaccuracies in the published statistics.

OVA Nat Panel
1.32 The last year has seen strong ^{has been strong} output growth ~~in most~~ ^{all} sectors of the economy ^{other than} with the exception of North Sea oil production, ^{the} ~~which has fallen.~~ Output of ^{rose} service industries has risen by 5 per cent between the first halves of 1986 and 1987, ~~Manufacturing output has risen~~ ^{rose} by over 4½ per cent, ~~over the same period, and in recent months has been back to around the level of~~ ^{its} ~~the 1979 peak in output, though still below the 1973 peak.~~ ^{has} Construction output ^{rose} by 7½ per cent over the year to the first half of 1987, ~~when it was higher than in any half year since the first half of 1974.~~ The recent rise in construction output has reflected not only growing private sector housebuilding, but also higher commercial building activity. Results of the latest DTI investment intentions survey and the CBI quarterly industrial trends enquiry, together with recent figures for construction orders, suggest that commercial and industrial building is likely to be an important source of further growth in construction output over the next year or so.

Chart 1.8: Services, manufacturing, and construction output

PEM: of doubtful use

INDICES OF OUTPUT
(1980=100)



? Go back this far?

PEM: shorten

Personal sector expenditure

1.33 Consumers' expenditure is now estimated to have increased by ~~more than~~ 5½ per cent in 1986, substantially more than growth in real personal disposable income. The personal saving ratio fell by about 1½ percentage points between 1985 and 1986. ~~Since 1980 the personal saving ratio has fallen by over a third,~~ bringing it back to around the average level of the late 1960s and early 1970s. There are at least two ^{major} ~~important~~ ^{reasons why} ~~elements of~~ ^{has fallen} ~~the fall in~~ the savings ratio in recent years. First, the decline in inflation has reduced the extent to which households need to save simply to make good the erosion of past savings. Second, there has been a fall in the contributions by employers to pension funds.

PEM expand this = drop all A 1.34

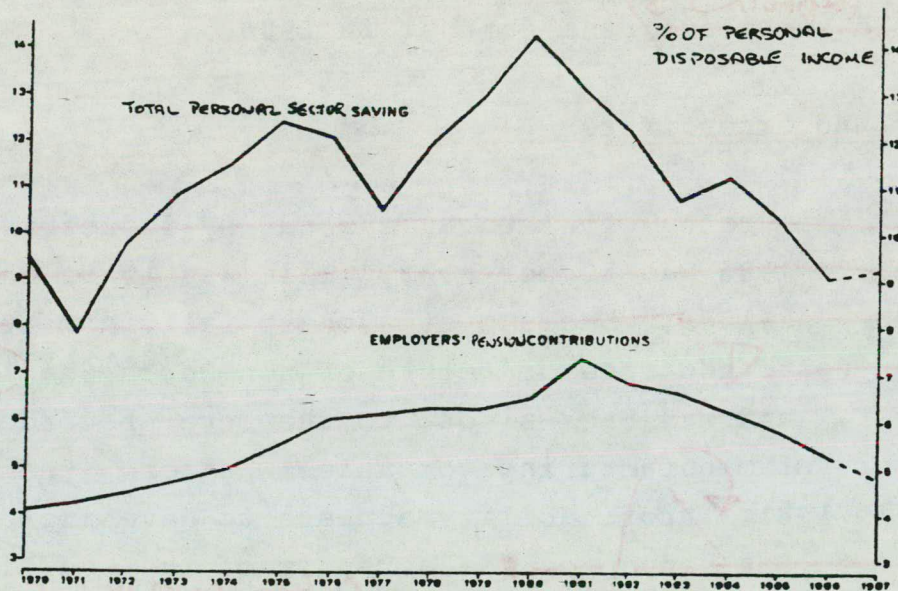
~~1.34 Employers' contributions to pension funds, which are classified in the national accounts as personal income, rose relative to personal disposable income during the 1970s, but have fallen during the 1980s. Part of the reason for the rise in the 1970s was that the surge in inflation and the associated collapse in the stock market caused a sharp fall in the value of pension funds' assets. Firms therefore had to make additional payments to cover the actuarial deficits that had arisen. In the 1980s inflation has fallen and profitability and the stock market have recovered, leaving many~~

we may not want to keep all this in it stock market keeps plummeting ^{as the pension funds have losses not substantial surplus}

This fall is

pension funds with surpluses over liabilities. Firms have been reacting to these surpluses by suspending or reducing their contributions. This tendency will have been reinforced by changes made in the 1986 Budget to the rules relating to pension funds' surpluses, which require a reduction of actuarial surpluses to not more than 5 per cent of liabilities. The consequent fluctuations in employers' contributions are unlikely to have had a large effect on consumers' expenditure, and hence will have shown up in changes in the recorded personal saving ratio. Chart 1.9 shows the saving ratio and the share of employers' contributions to pension funds in personal disposable income.

Chart 1.9: Personal saving



1.35 Statistics published for the first half of 1987 show a small rise in the personal saving ratio, while consumer spending growth on a year earlier slowed to around 4 per cent. Interpretation of these statistics is complicated by the discrepancies in the accounts discussed in paragraph 1.31. Retail sales have been growing very strongly over the summer, and taken with the record level of car registrations in August this suggests that consumer demand remains very strong. For 1987 as a whole consumer spending may rise by around 4½ per cent, while the rise in real personal disposable income may be a little higher than this. In 1988 there is likely to be a resumption of the decline in the saving ratio recorded over recent years, and growth in consumer spending may be little changed from 1987. ~~Adjusted for likely changes in pension contributions the saving ratio could rise.~~

is likely to continue
PEM

too long

1.36 The housing market remains very buoyant. Although private housing starts have fallen back from their high first quarter levels, for the first three quarters of 1987 as a whole they were [6] per cent higher than the year before, while private completions were some [8] per cent higher. In spite of this rise in housing completions first estimates of private sector investment in new dwellings show it to have been lower in the first half of 1987 than in the first half of 1986, as there was an increase in the stock of completed but unsold dwellings. With demand for housing strong, this build up of stocks could well be reversed in the second half of 1987; as investment in improvements ~~has been~~ rising fast, private housing investment in 1987 as a whole may record an increase only a little below the 12 per cent rise seen in 1986. ~~Even if housing starts are now past their peak, completions, which lag behind starts, should rise again next year.~~ Housing investment ^{is expected to} rise further in 1988.

Company incomes and expenditure

1.37 ~~The net real rate of return earned by industrial and commercial companies (ICCs) in 1986 was 10 per cent. This was lower than the rate of return recorded in 1985, because of a sharp fall in North Sea companies' profits. By contrast, the rate of return of non-North Sea ICCs rose sharply again last year, and was back almost to the level recorded in 1973; while the rate of return of manufacturing companies was more than 3½ times the level recorded in 1981. Profitability appears to have improved further this year both for North Sea companies as a result of the partial recovery in the oil price, and for non-North Sea companies, helped by strong growth in productivity.~~

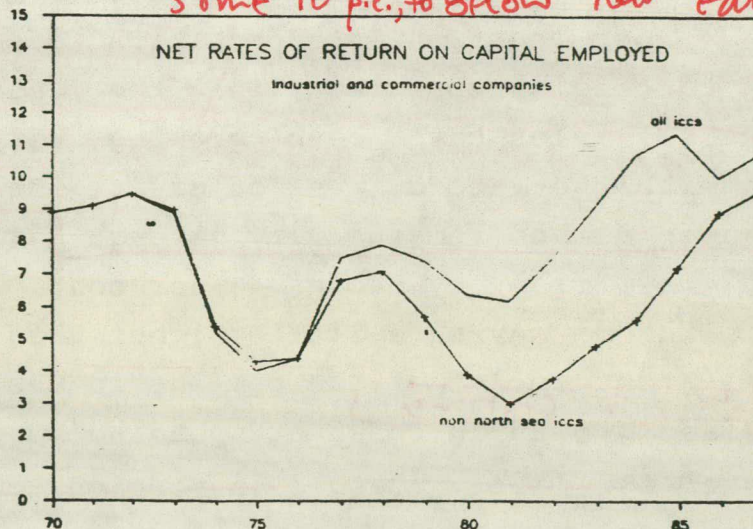
Turn this round to put non-North Sea ICCs first

Spill over

this

The sharp fall in North Sea companies' profits brought the overall rate of return ~~down~~ by all ICCs in 1986, some 10 p.c. to below that earned in 1985. But North Sea

Chart 1.10: Companies rate of return



While the rate of return

PEM: explain CT return

All too gloomy intro

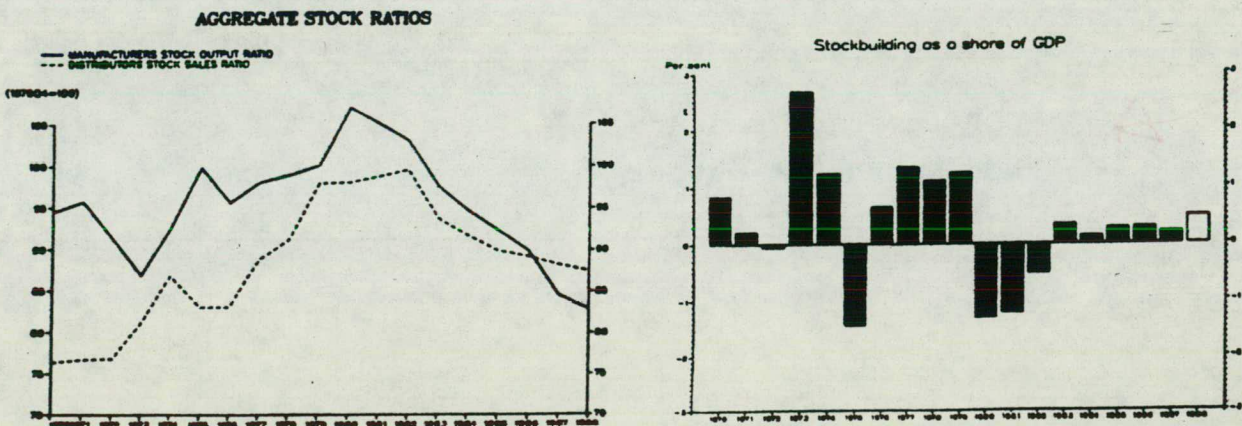
1.38 Business investment was weak in 1986, as spending had been brought forward into 1985. Non-North Sea business investment has recovered strongly in the first half of 1987. Manufacturing investment, including assets leased from finance lessors, rose some 7 per cent between the second half of 1986 and the first half of 1987. The projections of the DTI's June investment intentions survey (4 per cent growth in manufacturing investment in 1987 and 8 per cent growth in investment on average in all industries covered) now seem likely to be exceeded. The recent performance of output and profitability suggest that manufacturing investment could well accelerate next year. North Sea investment seems likely to fall again this year, to less than two thirds of the 1984 level, but may change little further next year.

PEM: short term

Following the expected 'dip' in 1986 caused by the budgetary transfer of investment as a result of the 1984 CT return

1.39 Stocks fell in the first half of 1987. Given the sharp rise in sales, there may have been some involuntary element in the fall in manufacturing stocks. Responses to the question in the CBI's trends enquiry about stocks of finished goods showed the excess of firms with more than adequate stocks over those with inadequate stocks falling sharply over the winter and spring. Thus while stock/output ratios are expected to fall further over the second half of 1987 and in 1988, the level of stocks should rise. The full effect of the abolition of stock relief in the 1984 Budget may now have largely fed through, and responses to recent CBI enquiries have pointed to a more positive trend in stockbuilding. Stocks of the Intervention Board for Agricultural Produce (IBAP) were reduced in early 1987 to meet export demand, and are likely to be rebuilt from the 1987 harvest. For 1987 as a whole stockbuilding may be a little less than in 1986, but is likely to make a small positive contribution to growth next year. Stockbuilding is, however, expected to remain on a modest scale compared with many years in the 1960s and 1970s (see Chart 1.11).

Chart 1.11: Stockbuilding



Prospects for demand and activity

1.40 Growth in 1987 is expected to be around 4 per cent, but in 1988 to fall back closer to the average rate recorded since 1981. (See table 1.4). The slower growth reflects a fall in North Sea oil production and therefore net ^{oil} exports, and also a ~~more negative~~ ^{smaller} contribution from non-oil ~~trade~~ ^{exports} next year. Growth in 1987 and 1988 cannot yet, however, be fully explained in terms of expenditure because of the large discrepancy between the expenditure estimate of GDP and the average estimate in the first half of 1987.

Table 1.4: Domestic demand and GDP

[Not a attractive picture: constant domestic demand; falls exports]

	Per cent changes on a year earlier		
	1986	1987	1988
Domestic demand	4	4	4
Exports of goods and services ¹	3 (3½)	5½ (6)	2½ (2½)
Imports of goods and services ¹	6 (5)	6½ (7½)	6 (4½)
Domestic production: GDP ²	3	4	3½

¹ Non-oil shown in brackets
² Average measure

1.41 North Sea ^{declining} ~~net~~ output fell by some 2 per cent between the first halves of 1986 and 1987 and is expected to decline further in 1988. In both 1987 and 1988 ~~falling~~ output in the North Sea may reduce GDP growth by around ½ per cent. Manufacturing output is forecast to rise at a similar rate to ^{total} non-North Sea GDP in 1988, having risen rather faster in 1987. (See table 1.5).

Table 1.5: Real GDP and manufacturing output

	Per cent changes on a year earlier		
	1986	1987	1988
GDP (average measure)	3	4	3½
Non-North Sea output	3	4½	4
Manufacturing output	1	5	4

Major rise

as maintained by the RPI

INFORMATION

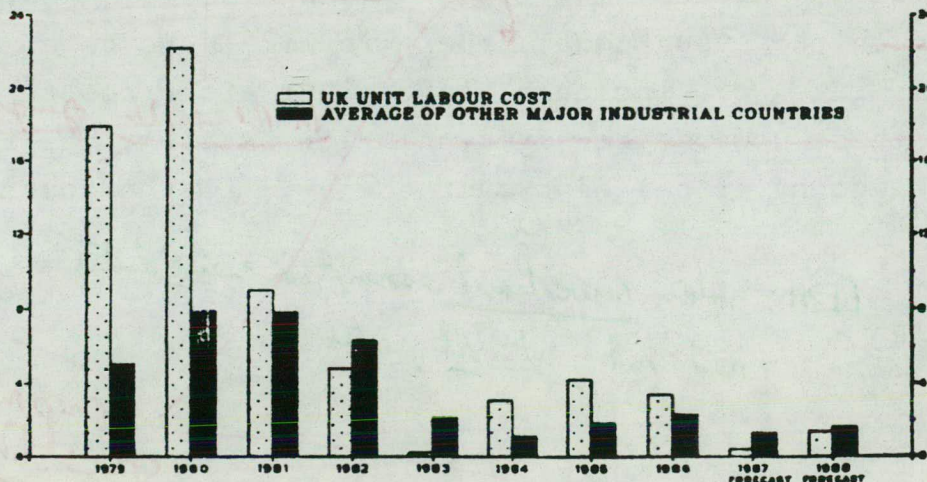
As forecast at budget time - see Budget, Re

1.42 The annual rate of ~~retail price~~ inflation (RPI) ^{slightly} rose ~~as expected~~ during the summer, reflecting the profile of mortgage rates and petrol prices in 1986. (The national accounts measure of consumer prices has been showing a markedly lower rate of inflation than the RPI: it rose by under 2½ per cent over the year to the second quarter of 1987.) ~~Retail price inflation~~ ^{if the same fall back and} is likely to average 4 per cent in the fourth quarter of 1987, in line with the Budget forecast. Producer output price inflation has been a little higher this year than forecast at Budget time, ^{while} the rate of increase of costs of materials and fuel ^{some 2½% more than} ~~has been around twice as fast as~~ expected.

slightly
1.43 The underlying annual rate of increase in average earnings has risen from 7½ per cent at the start of the year to 7½ per cent in recent months. ~~The higher rate of increase~~ ^{is} more than accounted for by a rise in overtime payments. ^{actually} Adjusted for overtime hours the underlying growth in average earnings has ^{fallen} over the last year, reflecting a significant fall in the level of pay settlements during the second half of 1986. ^{downward trend} There are signs that this ~~fall in pay settlements~~ has to some extent been reversed over recent months.

1.44 Growth in unit labour costs has been kept down by ^{Re report} fast growth ^{of} in productivity and by relatively slow growth in non-wage labour costs. Indeed, unit labour costs in manufacturing may not have risen at all between 1986 and 1987. For the first time since 1983, unit labour costs in manufacturing in the other major industrial countries have on average risen faster than in UK.

Chart 1.12: Unit labour costs



Prospects

1.45 The very low growth in costs over the last two years has not been fully reflected in producer output prices. With the benefit of substantial gains in competitiveness relative to producers overseas and fast growth in demand, UK manufacturing industry has experienced large increases in profit margins. Profit margins may continue to rise, if a little more slowly than in recent years. Thus in spite of somewhat faster growth in costs, producer output prices are forecast to rise next year by about the same amount as this year and last. (See table 1.6).

Table 1.6: Costs in manufacturing

	Per cent changes on a year earlier			
	Unit labour costs	Cost of materials and fuel ¹	Estimated total unit costs ²	Output prices ¹
1985	4	4	4	6½
1986	3½	-11	- ½	4½
1987 Partly forecast	0	5½	1½	4½
1988 Forecast	1½	3	2	4½

¹ Producer prices excluding food, drink and tobacco
² Including costs of bought in services

There is no conventional assumption of a full revaluation of specific duties

1.46 Retail price inflation is expected to fall below 4 per cent by the end of the fourth quarter of 1987, but is ~~likely to rise again during the spring and summer of next year.~~ ^{given} Just as the 1986 fall in world oil prices was not fully reflected in UK domestic energy prices until this year, so this year's partial recovery in world oil prices is likely to be reflected in higher domestic energy prices in 1988. With specific duties assumed to be revaloured in the 1988 Budget, there is likely to be a temporary rise in the annual rate of increase in the RPI after the first quarter of 1988. ~~Reflecting these upward pressures on RPI inflation,~~ ^{In no light of this,} the forecast is for the RPI to increase by 4½ per cent over the year to the fourth quarter of 1988.

PEM: explain conventional assumption re: specific duties and not just oil prices

Compare with no still in 1987 budget, and the need for higher electricity prices to finance the nuclear programme,

Table 1.7 Retail prices index

	Weight in 1987	Per cent changes on a year earlier		
		1986Q4	1987Q4	1988Q4
Food	16½	3½	3½	3
Nationalised industries ¹	6	3½	2½	6½
Housing	15	7	7½	8½
Other	62½	2½	3½	4½
Total	100	3½	4	4½

¹ Includes water

1.47 The GDP deflator measures the price of domestic value added - principally unit labour costs and profits per unit of output - and excludes import prices. The GDP deflator at market prices is forecast to rise by 4½ per cent in the current financial year, following an increase of 3 per cent last year. The higher rate of increase this year is more than accounted for by a recovery in North Sea profits following their fall of over 50 per cent in 1986-87. ~~Like the RPI, the GDP deflator at market prices will next year reflect a higher rate of increase in domestic energy prices and taxes on expenditure; on the other hand the oil price component of the GDP deflator may change little over the next year.~~ The GDP deflator is now forecast to rise by 4½ per cent in 1988-89.

PRODUCTIVITY AND THE LABOUR MARKET

1.48 The growth in the employed labour force has been gathering pace over the last year: in the twelve months to June 1987 it is estimated to have risen by 367,000, in total. Since ~~employment started to rise again in~~ 1983, there has been an increase of around 1,350,000 in the number of jobs. The strong growth in manufacturing and construction output this year has been reflected in particular in a rise in male employees: the 84,000 rise in the six months to June was the largest half yearly rise since the first half of 1973.

Table 1.8: Employment

Thousands, change in GB seasonally adjusted					
	Employees in Employment		Self-employed	HM Forces	Employed labour force
	Male	Female			
June 1984 to June 1985	+82	+191	+115	0	+387
June 1985 to June 1986	-56	+151	+ 17	-4	+108
June 1986 to June 1987	+72	+200	+102*	-3	+372

* Figures for self-employment over the last year is a projection based on self-employment growth over the previous five years.

PEM: shorter, & start by saying productivity growth strong. Point (i)

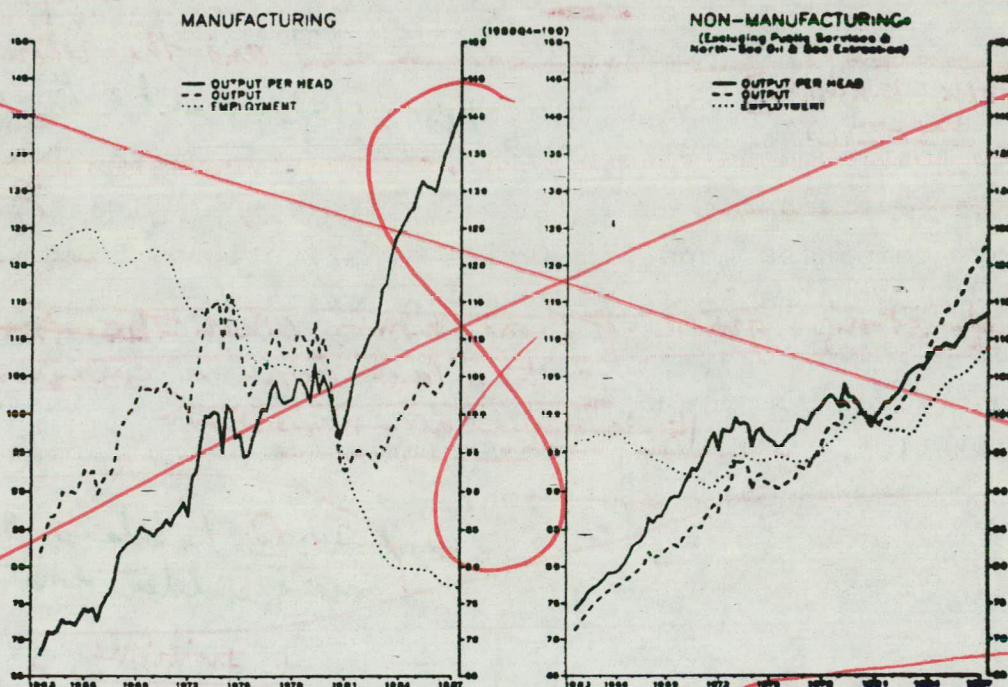
1.49 ~~(The figures for manufacturing productivity over the recent past have again been revised upwards during 1987.)~~ *Productivity has been growing strongly.* Taking account of this year's very strong performance, *both* manufacturing productivity is now estimated to have risen by 4 per cent a year on average since 1979. ~~(The corresponding estimate made a year ago for the period 1979-1986 was for an average of 3 per cent a year growth in productivity.)~~ This ~~high growth in labour productivity~~ has been accompanied by substantial improvements in capital productivity. ~~Underlying growth in labour productivity now appears, if anything, to be higher than the rate experienced in the 1960s. Outside manufacturing industry, productivity growth is still below the rate recorded in the 1960s, but much improved from the second half of the 1970s.~~ Non-manufacturing output per man hour has risen by about 2 per cent a year since 1979, and by about 2½ per cent a year since 1983. Output per head has grown less than this as result of the large rise in part-time employment.

Table 1.9: Output per head of the employed labour force

	Annual averages, per cent change		
	1964-73	1973-79	1979-87
Manufacturing	3½	½	4
Non-manufacturing*	3	½	1½
Whole economy	2½	1½	2
Non-North Sea economy	2½	½	1½

* Excludes public services and North Sea oil and gas extraction.

Ch 1.13: Output, employed labour forecast and output per head



Unemployment

1.50 Since June 1986 seasonally adjusted adult unemployment has fallen for sixteen months in succession, by some 437,000 in total; the number of unemployed school leavers has also fallen, by some 48,000 over the last year. While various government measures to provide training or work experience for the unemployed, or to help them to find jobs, have contributed to this fall in unemployment, the fall has to an increasing extent been attributable to the strong growth of output and employment in the UK. The encouraging prospects for the UK economy over the next year mean that a further substantial fall in unemployment is likely. The main danger to the chances of further progress in reducing unemployment is of pay settlements being too high.

By far the greater part of this is attributable to the strong growth of output & employment in the 80s.

Financial developments

Now 1.51 @ EW

1.51 Short-term interest rates, which fell by more than a percentage point after the Budget, have risen again in recent weeks. Real short-term rates remain high. Long-term interest rates which fell in the spring, have risen again as world bond markets have weakened and domestic short-term rates have risen. The yield curve is flat.

*Point (4)
PEM: start with XR stabilised, ↑ Reserves, ref to 1.20.*

[The FSB that 2.4] smaller

1.52 The year-on-year growth of M0 has been above the midpoint of its 2-6 per cent target range in recent months, reflecting earlier falls in interest rates and strong growth in consumers' expenditure. M0 is expected

in part

in August

grow quite quickly

slowing down

to continue to rise quickly in the immediate future before growing more slowly as a result of the recent rise in interest rates and the projected more moderate growth of consumers' expenditure.

in the stock market.]

PEM: shorter & cost in terms of broad money.

1.53 M3 has continued to rise rapidly with growth around [] per cent in the year to September. This has reflected, at least partly, increased deposits by companies and financial institutions. M4 which includes deposits with building societies, has increased by [] per cent in the year to September. These high rates of growth of broad money continue the trend evident in recent years and are largely the result of financial innovation and liberalisation. They have been consistent with appropriately tight monetary conditions and low inflation.

The growth of strong growth of broad money which has been consistent

is a large extent a consequence of it is thus not necessarily

Conclusion: On the balance of the evidence, monetary conditions remain firm

Fiscal developments

1.54 Tables 1.10 to 1.12 show both the Budget and latest forecasts for 1987-88 of general government expenditure and receipts, and of public sector borrowing. They show also the 1986-87 outturn. The PSBR in 1986-87 was £3.5 billion, just over £½ billion lower than estimated in the 1987 FSBR. Lower central government borrowing, more than accounted for by higher than expected tax receipts, was responsible for about two-thirds of this downward revision, with the remaining one-third due to lower than expected local authority borrowing.

projections revenue

in 1987-88.

revenues

1.55 In the first six months of 1987-88 the PSBR was £1½ billion. Excluding privatisation proceeds, borrowing was about £1½ billion lower than in the first half of 1986-87. The revised forecast for 1987-88 as a whole is a PSBR of about £1 billion, some £3 billion lower than forecast in the FSBR. Two thirds of this downward revision is due to a higher forecast of general government receipts, and the remaining one-third due to a lower forecast of public expenditure.

around

revenues

1.56 Table 1.10 shows the relationship between the public expenditure planning total and general government expenditure. The outturn for the public expenditure planning total is expected to be some £1½ billion lower than anticipated in the FSBR. The composition of this downward revision is set out in Chapter 2. The forecast of those items which lie between the planning total and general government expenditure has in total increased slightly, [mainly reflecting upward revisions to 1986-87]. Excluding

was forecast

This is largely accounts for by higher capital receipts from local authorities -> new towns. See PEM redraft: Point (m) ✓

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privatisation proceeds, general government expenditure is now projected to increase by 5 per cent in 1987-88, a little less than the increase in 1986-87.

Table 1.10: General Government Expenditure

	£ billion		
	1986-87 Outturn	1987-88 Budget Forecast	Latest Forecast
Public expenditure planning total	139.4	148.6	147.7
Interest payments	17.4	17.9	17.8
Less public corporations' market and overseas borrowing	-1.3	-0.8	-0.7
Other adjustments	6.9	6.2	6.6
General government expenditure	165.1	173.5	172.8
of which Privatisation proceeds	4.4	5.0	5.3

1.57 Table 1.11 shows the forecast for general government receipts. The forecast of tax and national insurance ^{revenues} receipts has been increased by just over £2½ billion since the Budget. The forecast of on-shore corporation tax, including ACT, is about £½ billion higher, mainly reflecting upward revisions to profits estimates for 1986 in the recent Blue Book and, in the case of ACT, a higher level of dividend payments so far in 1987. The upward revision of £½ billion to North Sea revenues is more than accounted for by the higher ~~assumed~~ ^{Plan was assumed at Budget time} dollar oil price. The forecasts of personal income tax, VAT and national insurance contributions are also each about £½ billion higher than in the FSBR. General government receipts in total are now forecast to rise by over 6½ per cent in 1987-88, following an increase of 5½ per cent in 1986-87 (when North Sea revenues more than halved).

Table 1.11: General Government Receipts

	£ billion		
	1986-87 Outturn	1987-88 Budget Forecast	Latest Forecast
Taxes on income, expenditure and capital	119.6	127.8	130.0
National insurance and other contributions	26.7	28.5	28.9
Interest and other receipts	13.3	12.6	12.3
Accruals and adjustment	0.5	0.0	-0.2
Total receipts	160.2	168.8	171.0
of which North Sea revenues	4.8	3.9	4.5

1.58 Table 1.12 shows the ⁸⁷⁰ ~~previous~~ and new forecasts for borrowing. The PSBR forecast is still subject to a great degree of uncertainty. The average error on ^{PSBR} forecasts of the PSBR for the current financial year made in the autumn is 0.6 per cent of GDP, or £2½ billion. ~~If the revised forecasts is correct,~~ ^{Bank m - on the basis of the forecast} the PSBR, both including and excluding privatisation proceeds, will be lower as a proportion of money GDP than in any year since 1970-71.

1.12: Public Sector Borrowing

	£ billion		
	1986-87 Outturn	1987-88 Budget Forecast	Latest Forecast
Central government expenditure	165.1	173.5	172.5
Central government receipts	160.2	168.8	171.0
Central government borrowing requirement	4.9	4.7	1.5
Public corporations' market and overseas borrowing	-1.3	-0.8	-0.7
Public sector borrowing requirement	3.5	3.9	0.8
Percentage of GDP	1	1	1
of GDP at market prices	385	411	419

Table 1.13: Economic prospects

	Forecast		Average errors from past ¹ forecasts
	1986 to 1987 percent changes	1987 to 1988	
A Output and expenditure at constant 1980 prices			
Domestic demand	4	4	1
of which:			
Consumers' expenditure	4½	4½	1½
General government consumption	½	1	1
Fixed investment	5	4½	2½
Stockbuilding (as per cent of level of GDP)	0	½	¾
Exports of goods and services	5½	2½	2½
Imports of goods and services	6½	6	2½
Gross domestic product: total	4	3½	¾
manufacturing	5	4	2½
B Balance of payments - current account			
	£ billion		
	-2½	-3½	3
C Inflation			
	per cent changes Q4 to Q4		
Retail prices index	4	4¾	2
	1987-88 1988-89		
	per cent changes on previous financial year		
Deflator for GDP at market prices	4½	4½	2
	per cent changes on previous financial year		
D Money GDP at market prices			
	8½	8	1½

¹ The errors relate to the average differences (on either side of the central figure) between forecast and outturn; they are relevant to the forecast for next calendar or financial year. The method of calculating these errors has been explained in earlier publications and Government forecasts (see Economic Progress Report June 1981). The calculations of average errors are based on forecasts made between 1975 and 1986.

Table 1.14: Gross fixed domestic capital formation

	Per cent changes on a year earlier			
	£ billion at 1980 prices		Forecast	
	1985	1986	1987	1988
Non-oil business ¹	27.9	-2	8	5½
Oil ¹	2.0	-14½	-20	4
Private dwellings ²	9.7	7½	7	4½
General government	7.0	5½	-2½	3
Total fixed investment	46.5	½	5	4½

¹ Includes investment by public corporations

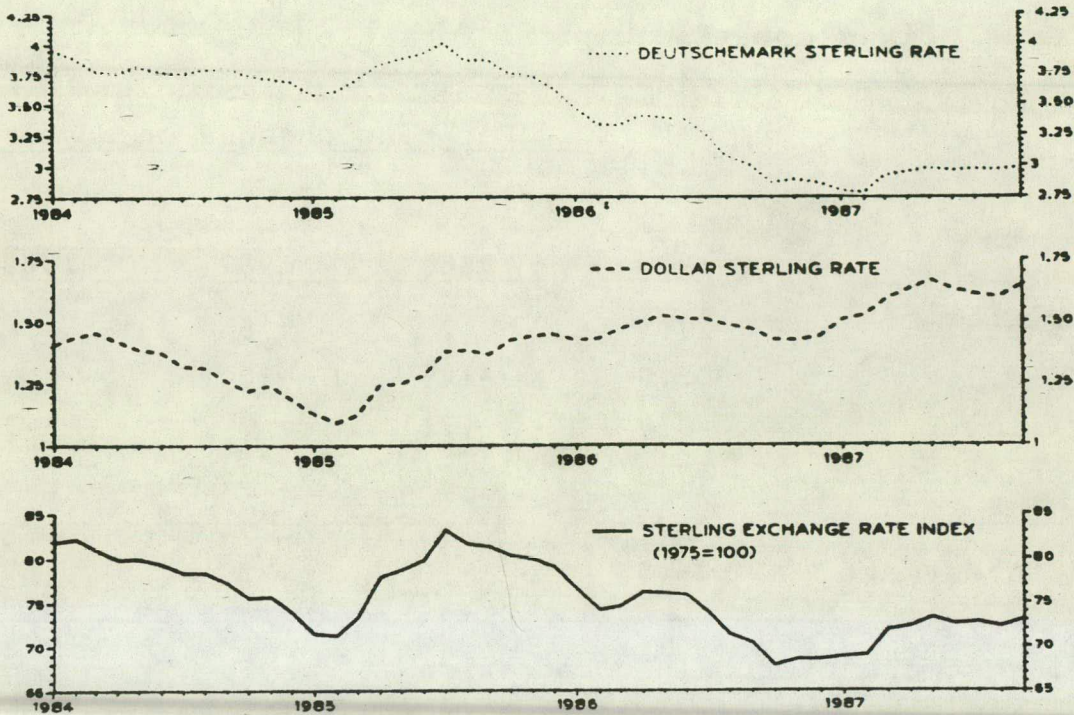
² Includes purchases less sales of land by persons, companies and public corporations, other than purchases of council houses.

1.51. The sterling exchange rate, as already noted, has been ~~generally~~ broadly stable over the past eight months, following the conclusion of the Louvre agreement. During that time there has been a substantial inflow of the US dollars, amounting to some £ xxx billion. [This fig is the problem on 3/11]

Short term interest rates were raised in the summer, and remain historically high a real terms. Long term rates throughout the world, which fell in real terms since 1979, were edged up again until the stock market collapse in October in the US, unlike the US - most other countries, the yield curve is flat.

ANNEX 1: Alternative Charts

Chart 1.3: Version of exchange rate chart over longer time period



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FROM: B O DYER
 DATE: 20 October 1987

01-270 4520

PPS

*Thatcher
 November 10
 Do X. m.*

cc Mr Scholar
 Miss Evans

AUTUMN STATEMENT

I understand the date favoured by the Chancellor is Tuesday 3rd November with Tuesday 10th November as a fallback.

2. There will be no Ten Minute Rule Bill slot on Tuesday 3rd November; thus, the Chancellor would expect to come on immediately after Question Time - circa 3.30pm. If, however, the Autumn Statement slipped to Tuesday 10 November it would be pre-empted at 3.30pm by the first of this Session's Ten Minute Rule Bills - ie the Chancellor would not be called much before 3.45 and possibly a little later if the Ten Minute Rule Bill were opposed.

X | 3. If the date of the Autumn Statement looks likely to slip to **10 November** you may like to enquire of the Chancellor whether he wishes the Parliamentary Private Secretaries to try and mount the same operation as they did at the time of the Budget, and negate the Ten Minute Rule Bill interruption.

A handwritten signature in black ink, appearing to read 'B. O. Dyer'.

B O DYER

CONFIDENTIAL

RS

From: R B SAUNDERS

Date: 20 October 1987

PRINCIPAL PRIVATE SECRETARY

- cc PS/Chief Secretary
- PS/Financial Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir T Burns
- Mr F E R Butler
- Mr Anson
- Mr Cassell
- Mr Kemp
- Mr Monck
- Mr H Evans
- Mr Moore
- Mr Odling-Smee
- Mr Peretz
- Mr Scholar
- Mr Sedgwick
- Mr Turnbull
- Mr R Allen
- Mr Bottrill
- Mr S Davies
- Mr Gieve
- Mr Hibberd
- Mr Matthews
- Mr Mowl
- Miss O'Mara
- Mr Allum
- Miss C Evans
- Mr Hudson
- Mr Owen
- Mr Ritchie
- Mr Cropper
- Mr Tyrie
- Mr Call

Ch
 Comments from PEM's
 meeting *AA*

*Comments transcribed in green
 onto copy below*

*I have now marked/amended
 this throughout.
 Mr.*

CHAPTER 1 OF THE AUTUMN STATEMENT: ECONOMIC PROSPECTS FOR 1988

Sir Peter Middleton held a meeting this morning about the draft attached to Mr Sedgwick's minute of 19 October. It was noted that the forecasters and Sir T Burns would need to discuss further some of the forecast numbers. The following main points were made on the draft.

- (a) It should acknowledge and take account of the recent movements in world equity markets. Major drafting changes should not be essayed, but some references would be incorporated, eg in the section on the world economy. The general line should be that the forecast had been prepared in the light of these developments, but that there remained great uncertainty as to their likely effects. Sir T Burns would prepare a suitable form of words.
- (b) Further work was needed on many of the charts. Where it has been customary to show forecasts, these will be distinguished from recorded data. Chart 1.8 in its present form was of doubtful use. Chart 1.3 was generally preferred to the alternative at the back of the draft.
- (c) A formula would be needed on the exchange rate which was consistent with the BP prospectus, but did not give unnecessary hostages to fortune. The question was whether to assume explicitly that all major currencies remained roughly stable; or to focus on sterling. One possibility was "sterling will remain close to recent levels". This could be interpreted later as implying reasonable stability in cross-rates. An alternative, which some preferred, would be to refer to "the exchange rate" rather than sterling. The first sentence of paragraph 1.20 should read "Exchange rates between major currencies have fluctuated less following the Louvre meeting of Finance Ministers".
- (d) Paragraph 1.29 (overseas assets) was one point which should mention recent equity market movements. It should say that considerable uncertainty surrounded the likely end-1987

Handwritten note: Handwritten note

Handwritten note: [??]

position, because of the scale of the movements. These would affect both sides of the account, but on balance the net result was likely to be a decline.

two from 6/22

- (e) There was considerable scope for shortening the section on personal sector expenditure. If the final sentence of paragraph 1.33 was suitably expanded, the whole of 1.34 could be dropped. The final sentence of 1.35 could also be dropped.
- (f) The first sentence of 1.38 should explain that the advancing of investment from 1986-1985 was a response to the tax changes in the 1984 Budget. ✓
- (g) Paragraph 1.39 on stockbuilding could be considerably shortened, by omitting most of the detail (eg on IBAP).
- (h) Paragraph 1.46 should explain that the assumption of revalorisation of specific duties in the 1988 Budget was purely a conventional one. The explanation of the higher domestic energy prices in 1988 might also be changed; they were not solely the result of higher oil prices. *absolute must*
- (i) Paragraph 1.49 on productivity could be shortened considerably. It should begin with a statement that productivity is strong, then give the 4% average growth figure since 1979 for manufacturing productivity, and note the upward revisions for past figures. The third sentence would be dropped. What was now the fifth sentence should refer to productivity being "as high or higher" than in the 1960s.

- (j) For consistency with Chapter 2, the penultimate sentence of paragraph 1.50 should refer to "a continued fall" in unemployment.
- (k) The section on financial developments should start with a reference to the stability and strength of the exchange rate and refer to the published increase in the reserves so far this year. There should be a reference back to the discussion of the exchange rate in paragraph 1.20. The first sentence of paragraph 1.51 should say that rates have risen again "recently" (not "in recent weeks").
- (l) The first sentence of paragraph 1.52 should conclude "... recent months, in part reflecting earlier falls in interest rates"; the reference to consumers expenditure in the following sentence should also be dropped. Paragraph 1.53 should be shortened and cast in terms of broad money rather than specific aggregates. It should conclude that, on the balance of evidence, monetary conditions remained firm.
- (m) The final sentence of paragraph 1.55 should refer to "revenue" rather than "receipts". The third and fourth sentences of paragraph 1.56 should be replaced by "This is largely accounted for by higher privatisation proceeds and receipts from local authorities and new towns."
- (n) The new tables 1.10-1.12 were preferred to last year's versions. Table 1.12 should include a new line, as a memorandum item, showing the PSBR excluding privatisation proceeds.

*W. B. Saunders
on 3/4 May*

Capital

R B SAUNDERS
Private Secretary

On present information (which may change slightly) we can show

FROM: R PRATT
DATE: 19 October 1987

1. MR F E R BUTLER

an underspend of £1.2 billion,

- Sir T Burns
- Mr Anson
- Mr Turnbull
- Mr Sedgwick
- Mr Odling-Smee
- Mr Gieve
- Mrs Butler
- Mr Mowl

Copies attached for:

entirely explained by receipts, with a longfall

Chancellor

Sir Peter Middleton

figure of just £0.2 billion

2. CHIEF SECRETARY

in the adjustments line. This is what we recommend.

FERB 20.10.

This will now need to be changed to a forecast underspend of £1.2 billion, as the forecast is £1.6 billion.

CURRENT YEAR OUTTURN: PRESENTATION IN THE AUTUMN STATEMENT

I understand that you have concluded that the Autumn Statement should show a forecast underspend of around £1¼ billion for the current year. In the light of our latest forecast outturn, you are recommended to publish a figure of £147.4 billion - an underspend of £1.2 billion.

The Outturn

2. The usual monthly forecast for October (which is attached) suggests a planning total outturn of £147.0 billion - an underspend of £1.6 billion. The details of the claims on the Reserve are at Annex A. That shows that £1.2 billion of the underspend is attributable to higher capital receipts from local authorities New Towns, and from privatisation. The remainder can be largely accounted for by lower expenditure on agricultural support and by improved prospects for nationalised industry EPLs. This forecast underspend is still subject to considerable uncertainty - indeed PSF division believe it may be even greater. On the other hand, it takes no account of the recent decision on Storm damage, nor of the various claims for more local authority allocations. For the purposes of the Autumn Statement, however, it is unlikely that our central forecast will change.

3. By the time of the Autumn Statement, many of the factors underlying the forecast outturn will be in the public domain:

- i) Local authority and New Towns capital expenditure and receipts are based on quarterly returns from authorities, the results of which will be made public by DOE very shortly. Delaying publication beyond the Autumn Statement would arouse comment and suspicion.

- ii) Local authority current expenditure forecasts are based on authorities' own budgets, which are published.
- iii) The forecast outturn for Nationalised Industry EFLs will be agreed by each industry;
- iv) It will be possible for commentators to calculate a close approximation of the outturn for privatisation proceeds on the basis of the BP sale price and other published information.

Moreover, all the figures shown for the outturn on departmental programmes have to be agreed by the departments concerned. It is thus not possible to adjust these forecasts without their agreement.

The Scope for Adjustment

4. We have therefore considered whether to encourage departments to bring forward large one-off expenditure proposals that would relieve pressure on future years. However, we have not yet found a proposal for which there is a realistic prospect of its being brought to fruition in time to be announced and included in the outturn figure for a department in the Autumn Statement. Moreover, since the underspend this year is largely attributable to increased receipts rather than reduced expenditure, there is a clear policy objection to inviting bids for greater expenditure. At present, therefore, it seems unlikely that we will be able to change any of the figures for forecast outturn for individual departments, public corporations or local authorities.

5. It is not unusual for the forecast planning total outturn to differ from the sum of the component parts of the Autumn Statement table. This is either because the Treasury might well take a different view about one or more of the published forecasts for individual departments. The figures are reconciled by the addition of 'shortfall' or 'longfall' in the "Adjustment" line at the foot of the AS table. In the past we have usually shown shortfall, implying that the Treasury believes expenditure to be lower than predicted by departments. This year, too, on present information, it appears that we would need to show shortfall of £0.2 billion in the Adjustment line, if we were to bring the total to our central forecast to £147.0 billion - an underspend of £1.6 billion.

6. If we wished to show a higher forecast planning total it would be open to us to avoid showing this shortfall, and thus reduce the underspend to £1.4 billion, without risking any public comment. We could reduce the underspend still further by showing longfall (implying that the Treasury believes expenditure to be greater than predicted by departments). It should be possible to show longfall of up to say £0.3 billion to £0.4 billion, (part of which might be justified by reference to decision on Storm damage). However a higher figure would risk arousing suspicion that we were packing the figures for some hidden expenditure and this could lead to awkward questioning, for example, from the Treasury and Civil Service Select Committee. Thus by changing the shortfall/longfall figure, we could show a planning total outturn figure of anything between £147.6 billion and £147.0 billion; or an underspend of between £1.0 billion and £1.6 billion.

7. Any underspend below £1.2 billion (the figure for increased receipts) would imply that gross expenditure was overrunning. You are recommended therefore, to publish an underspend of £1.2 billion - a planning total outturn of £ 147.4 billion.



RICHARD PRATT

FORECAST RESERVE CLAIMS 1987-88

Table 1

		<u>£ billion</u>	
	Total	Changes due to Increased Receipts	
Central govt cash limited	0.75		
of which: underspend net of FYF	(-0.20)		
NHS pay (excl FPS)	(+0.30)		
Central govt. non cash limited (incl NIF)	0.65		
of which: Soc Sec (excl HB)	(0.25)		
IBAP (gross)	(-0.20)		
Central govt. Other (incl CFERS)	0.35		
of which: net EC contribution	(0.55)		
Local authorities	0.80		
of which: HB	(0.20)		
Current	(1.10)		
Capital	(-0.55)	-0.80	
Public corporations	-0.35	-0.20	(New Towns)
Privatisation proceeds	-0.25	-0.25	
TOTAL CLAIMS ON THE RESERVE (rounded)	1.9	-1.35	
RESERVE	3.5		
UNDERSPEND	1.6		

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FROM: R PRATT
 DATE: 20 October 1987

(1) MR F E R BUTLER

Copies attached for:
 Chancellor of the Exchequer
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir P Middleton*

Sir T Burns
 Mr A Wilson
 Mr Anson*
 Mr Cassell
 Mr Monck*
 Mr Odling Smee
 Mr Sedgwick
 Mr Spackman*
 Mr Burgner*
 Mr A Edwards*
 Mr Gilmore*
 Mr Hawtin*
 Mr Mountfield*
 Mr Robson
 Mr Moore*
 Mr Scholar

Mr Turnbull*
 Miss Peirson*
 Mr Gieve
 Miss O'Mara
 Mr L Watts*
 Mr Mowl*
 Mrs R J Butler*
 Mr Culpin
 Mr Baker*
 Mr I Taylor*
 Mr Deaton*
 Mr G C White*
 Miss Adamson*

(2) CHIEF SECRETARY

Mr Wells* - CSO

*Supplementary
 analysis to follow

PLANNING TOTAL AND STATE OF THE RESERVE

This submission provides details of GEP's October assessment of the Reserve and planning total for 1987-88.

2. GEP's October assessment indicates total claims on the 1987-88 Reserve of £1.9 billion and hence a planning total outturn of £147.0 billion. This is £1.6 billion below PEWP and FSBR plans.

3. The forecast outturn is £1.0 billion lower than in last month's assessment. The main decreases this month are:

- i) £180 million on DOE/New Towns due to higher receipts from sales.
- ii) £400 million on DOE/LA1 which reflects both higher receipts and lower gross expenditure. This is the latest estimate by DOE derived from the first quarter capital payments returns by local authorities. It takes no account of additional allocations sought by departments to offset the underspend in England. These are likely to total at least £75 million.

iii) £133 million for Electricity (England and Wales). This reverses an increase made in the last position report. The chairman of the Electricity Council has recently assured the Energy Secretary that the earlier anticipated overspend can be contained.

iv) £110 million for MOD following a revised forecast of underspend against their cash limit.

v) £170 million for IBAP, resulting from lower forecast intervention purchasing following the cereals harvests.

4. The main increases this month are:

i) £250 million on net payments to the European Communities, arising mostly from a higher forecast of gross contributions.

5. Table 1 shows the main claims on the Reserve and changes since last month:

Table 1

	Total	£billion Change this month
Central govt cash limited	0.75	-0.10
of which: underspend net of EYF	(-0.20)	(-0.10)
NHS pay (excl FPS)	(+0.30)	-
Central govt. non cash limited (incl NIF)	0.65	-0.20
of which: Soc Sec (excl HB)	(0.25)	(-0.10)
IBAP (gross)	(-0.20)	(-0.15)
Central govt. Other (incl CFERs)	0.35	0.20
of which: net EC contribution	(0.55)	(0.25)
Local authorities	0.80	-0.45
of which: HB	(0.20)	-0.05
Current	(1.10)	-0.05
Capital	(-0.55)	(-0.40)
Public corporations	-0.35	-0.40
of which: Nat Ind EFLs	(-0.10)	(-0.20)
Privatisation proceeds	-0.25	-
TOTAL (rounded)	1.9	-1.0

6. Claims on the Reserve totalling £2.0 billion have so far already been formally agreed. Almost all of these are discretionary. Table 2 shows total claims charged and expected, discretionary and non-discretionary.

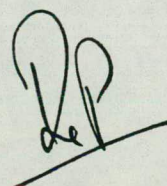
Table 2

	£billion		
	Formally agreed	Expected	Total
Discretionary	1.7	-0.4	1.3
Non-discretionary	0.3	0.3	0.6
	-----	-----	-----
TOTAL	2.0	-0.1	1.9

The attached chart shows how our assessment of the planning total outturn is changing each month as further information is received.

Conclusion

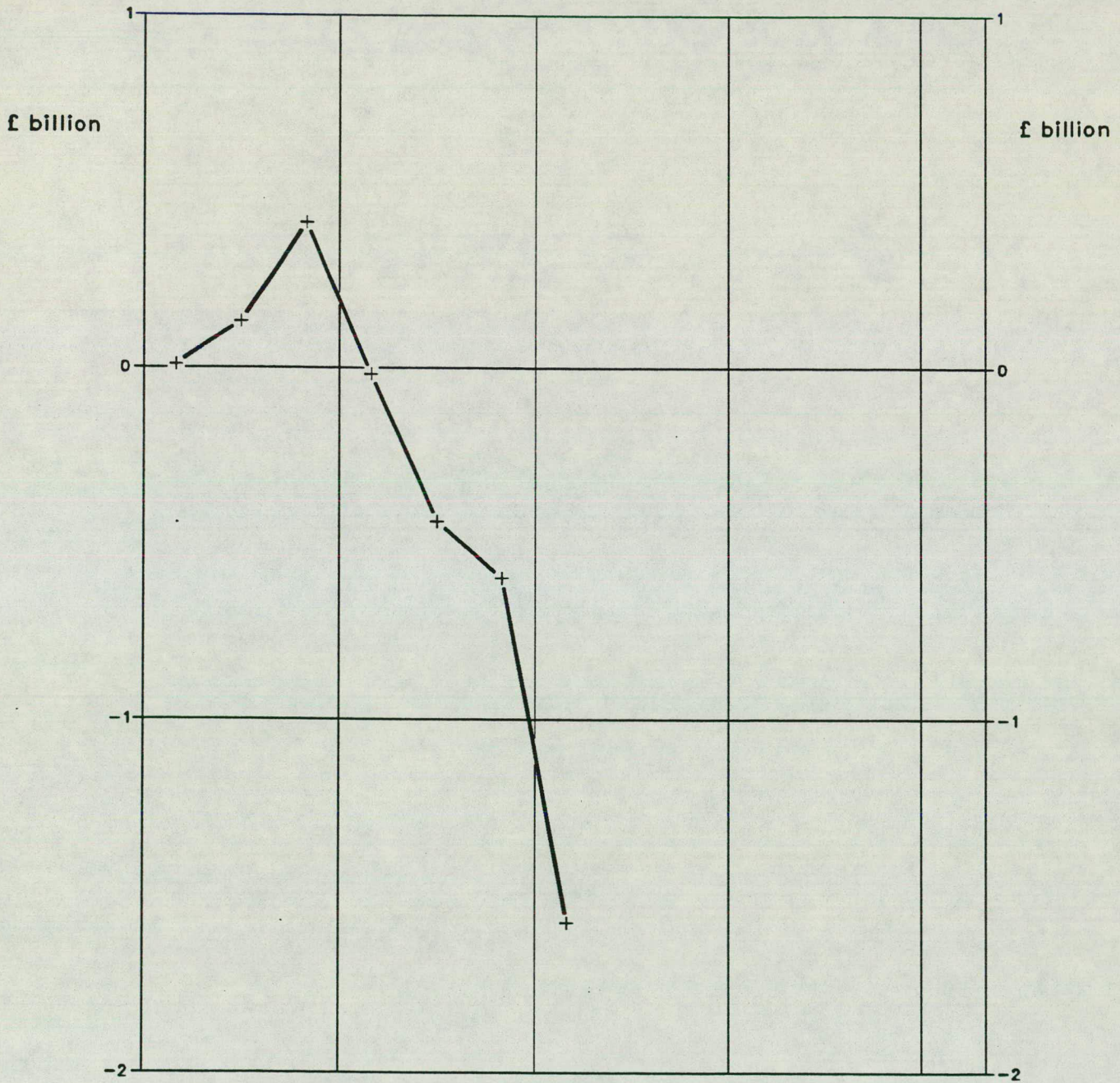
7. Our October assessment is that the 1987-88 Reserve in plans will be underspent by £1.6 billion (although this assessment takes no account of recent decision on storm damage or of the bids for more local authority allocation). Higher than planned asset sales (on LA capital receipts, new towns and the privatisation programme) now account for some £1.2 billion. Since asset sales do not justify increased expenditure and our estimates are subject to uncertainty, there should be no relaxation of our stance on new Reserve claims.



RICHARD PRATT

PUBLIC EXPENDITURE PLANNING TOTAL: CHANGE FROM PLANS 1987-88

+—+ PUBLIC EXPENDITURE PLANNING TOTAL



Forecast made in:

APR MAY JUN JUL AUG SEP OCT NOV DEC JAN FEB MAR APR

1987-88



Andrew

FROM: CATHY RYDING
DATE: 21 October 1987

PS/CHIEF SECRETARY

cc Sir P Middleton
Sir T Burns
Mr F E R Butler
Mr Anson
Mr Turnbull
Mr Sedgwick
Mr Odling-Smee
Mr Gieve
Mrs Butler
Mr Mowl
Mr Pratt

CURRENT YEAR OUTTURN: PRESENTATION IN THE AUTUMN STATEMENT

The Chancellor has seen Mr Pratt's minute to the Chief Secretary of 20 October.

2. The Chancellor has noted that the Autumn Statement planning total for the current year will need to be changed to a forecast underspend of £1 billion in the light of lower BP proceeds

CR

CATHY RYDING

SECRET AND PERSONAL

SCORECARD

No / of // Copies

FROM: JOHN GIEVR

DATE: 21 October 1987

CHANCELLOR

- cc Chief Secretary
- Mr F E R Butler
- Mr Anson
- Mr Monck
- Mr Turnbull
- Mr Scholar
- Miss Walker
- Miss C Evans

AUTUMN STATEMENT: PUBLIC EXPENDITURE TABLES

I attach revised table formats with our current numbers included. Some of the numbers will change over the next few days as we confirm, for example, the scale of interdepartmental transfers of provision; we need also to fill in the changes from White Paper for 1987-88. However the broad picture should be right. All the tables now have the columns arranged in three blocks of three as you indicated.

2. The format we recommended took the central government figures added lines for the other spending authorities and then added the non-programme lines for Reserves, privatisation proceeds, and adjustments to produce the planning total and GGE. You suggested an alternative in which the non-programme lines were added to the total departmental figures for all spending authorities, with the separate spending authority totals being broken-down by department in supplementary tables. Before choosing between the two you wanted to see how the figures looked. Tables 1 to 4 follow the format we recommended and Tables 5 and 8 the alternative approach.

General arguments

3. We discussed the general case for increasing the focus on spending authorities by making Table 1 the main table in the Autumn Statement and the White Paper when we discussed the PES treatment of local authorities more widely in July. The main advantages are:

Thanks, Turkey. There is a change in CA & LA, & PCS for 1988. I do not know if you are aware of this. I have prepared a new variant. There are two, on balance I prefer the one with 2 sessions. I have done a sketch (on page 5) of the proposal. I have also done a sketch of the alternative. I think this is better for our purposes. I have also done a sketch of the alternative. I think this is better for our purposes.

Do you want to spend more on the schools? We can make a decision when we have the complete programme for 1988. I have done a sketch of the alternative. I think this is better for our purposes.

Plans (your iii) is better for our purposes. I think this is better for our purposes. I have also done a sketch of the alternative. I think this is better for our purposes.

Ag is shown in the table. I think this is better for our purposes. I have also done a sketch of the alternative. I think this is better for our purposes.

i. it goes some way towards reflecting the different degrees to which the central government is responsible for and controls different types of spending and it helps to bring out the extent to which overspends can be attributed to local authorities;

ii. it reflects more accurately the way the Survey is actually carried out - ie with local authority relevant settled as a block outside the main Survey and nationalised industries considered in a 'satellite' review - and brings out more clearly the government's developing priorities;

iii. it avoids giving undue weight to the necessarily artificial service breakdown of the local authority totals; the breakdown of the relevant totals is largely based on the latest l.a. budgets while the departmental totals for capital are the highly misleading since they reflect the bargaining over allocations (this has led, for example, to apparent overprovision for transport but under provision for education); for education in particular in Table 5, the attributed shares of increases in l.a. relevant dwarf the changes in the controlled part of the programme;

iv. it avoids some of the very odd figures which appear in Tables 4 and 5 - for example the large negative figures for the energy programme.

The figures

4. In deciding on whether to focus on Table 1 or Table 5 you will want also to consider the different profiles of increases and reductions that they show when compared to last year's White Paper (in the last two columns). There are advantages on both sides. Perhaps the main points to note are the following:

i. In both cases social security shows the biggest departmental increase. The figures are a little lower in Table 1 because housing benefit appears in the local authorities other current line. In order to focus attention on the size of the overall social security burden, there would be advantage in focussing attention on the total social security line in Table 5.

ii. Health is the second "winner" on both analyses. Again the figures are slightly lower in Table 1 in absolute terms because local authority expenditure on personal social services is not included. On the other hand, there may be some advantage in focussing on Table 1 in this case since it effectively gives the plans and increases for the NHS in England (there is only £10-20m of annual

central government expenditure on personal social services).

iii. The figures for defence and EC contributions are the same in both cases.

iv. Education and the Home Office are shown as 'gainers' in both tables. The numbers for both plans and increases are very much larger in Table 5 because of the attribution of local authority expenditure; the rate of growth over the Survey period and the increases over baseline are higher in Table 1.

v. Housing shows net reductions below baseline in both years in Table 5 while it shows a net gain in Table 1 in 1989-90. Other Environmental Services also shows a net reduction in 1988-89 in Table 5 while being a modest gainer in Table 1. The difference arises because table 5 includes extra receipts which in Table 1 are allocated to the lines for local authority capital and other public corporations.

vi. Table 1 shows modest increases for Transport (mainly for the national roads programme). Table 5 shows an increase in 1988-89 - mainly attributable to an increased EFL for British Rail - but a net reduction in 1989-90 - attributable to a reduction in provision for local authority relevant spending.

vii. The Scottish Office shows a modest net gain in 1988-89 in Table 1 (because part of the CG formula consequentialia have been used for l.a. relevant) but very big increases in Table 5 which includes both l.a. relevant and the increases for Scottish electricity.

viii. Distributing public corporations to departments has a dramatic impact on the Department of Energy figures, the plans became negative in the later years but it shows a substantial gain over baseline in 1988-89. The effect on DTI is less marked.

5. On either of the options under consideration, the Autumn Statement will include both the figures for central government and the figures for all spending authorities broken-down by department and we can draw on different totals for different programmes in briefing. The question is which should come first and therefore get the main attention. There are arguments pointing either way in terms of the figures but, on balance, we still prefer Table 1 to Table 5 because we feel it gives a better picture of the Survey decisions.

Colour for Autumn Statement Tables

6. Last year we used some colour on the main expenditure table. This had the effect of drawing attention to the table since it was the only colour in the booklet and also allowed us to link different columns by using different shadings.

7. This year we have a different arrangement of columns and I do not think the use of colour is needed to help the reader. Nor do I think we need colour to draw attention to this table. While it is important, it does not seem more important than for example the charts showing GGE as a percentage of GDP or the tables setting out the economic forecast.

8. It would be helpful to know whether you agree with this or whether you would like to use colour this year.

J. Gieve

JOHN GIEVE

TABLE 1: PUBLIC EXPENDITURE

	Latest estimates of outturn			New plans			Change from January 1987 White Paper(1) £million		
	1986-87	1987-88	CHANGE	1988-89	1989-90	1990-91	1987-88	1988-89	1989-90
	OUTTURN	ESTIMATED OUTTURN	1986-87 TO 1987-88	PLANS	PLANS	PLANS			
CENTRAL GOVERNMENT									
Ministry of Defence	18,160.0	18,950.0	780.0	19,201.0	19,949.0	20,556.2	0.0	221.0	435.0
FCO - Diplomatic wing	630.0	700.0	70.0	716.7	735.8	755.8	0.0	-12.9	-10.8
FCO - Overseas Development Administration	1,270.0	1,310.0	40.0	1,397.7	1,469.8	1,515.1	0.0	31.2	61.6
European Communities	1,090.0	1,410.0	330.0	803.8	1,594.0	1,333.7	0.0	350.0	520.0
Ministry of Agriculture, Fisheries and Food	1,670.0	1,950.0	280.0	2,067.0	2,170.2	2,316.3	0.0	-120.6	-115.4
Department of Trade and Industry	1,840.0	1,050.0	-790.0	1,249.8	1,254.1	1,195.5	0.0	280.0	289.0
Export Credits Guarantee Department	260.0	160.0	-100.0	162.0	113.4	132.8	0.0	51.4	66.7
Department of Energy	910.0	590.0	-320.0	510.1	459.5	432.1	0.0	39.8	28.6
Department of Employment	3,760.0	3,980.0	220.0	4,137.3	4,194.2	4,243.2	0.0	49.6	8.0
Department of Transport	1,260.0	1,390.0	130.0	1,453.9	1,489.4	1,530.7	0.0	30.5	35.5
DOE - Housing	1,310.0	1,370.0	50.0	1,315.2	1,375.8	1,461.2	0.0	-8.5	40.0
DOE - other environmental services	360.0	430.0	60.0	442.6	446.6	448.3	0.0	25.8	19.3
Home Office	910.0	1,030.0	130.0	1,120.3	1,196.2	1,212.1	0.0	80.9	110.2
Legal departments	670.0	870.0	200.0	964.2	1,032.8	1,095.7	0.0	23.7	30.0
Department of Education and Science	2,460.0	2,700.0	240.0	2,950.3	3,101.5	3,160.4	0.0	229.5	293.7
Office of Arts and Libraries	340.0	370.0	30.0	403.8	423.8	439.7	0.0	35.6	46.5
DHSS - health and personal social services	15,150.0	16,520.0	1,360.0	17,621.6	18,458.6	19,320.1	0.0	700.0	800.0
DHSS - social security	41,000.0	42,600.0	1,600.0	44,782.7	46,873.2	49,477.8	0.0	908.7	1,333.1
Scottish Office	3,310.0	3,500.0	190.0	3,603.0	3,784.0	3,907.1	0.0	60.9	118.2
Welsh Office	1,450.0	1,560.0	100.0	1,669.7	1,714.0	1,768.9	0.0	91.3	83.6
Northern Ireland	3,590.0	3,800.0	200.0	3,999.9	4,166.0	4,309.3	0.0	66.9	92.2
Chancellor's departments	2,080.0	2,310.0	230.0	2,444.2	2,560.2	2,643.3	0.0	133.5	141.8
Other departments	1,320.0	1,440.0	120.0	1,636.7	1,921.0	1,770.9	0.0	8.3	215.6
TOTAL CENTRAL GOVERNMENT	104,800.0	109,900.0	5,100.0	114,653.5	120,483.1	125,026.2	0.0	3,276.6	4,692.4
LOCAL AUTHORITIES	37,900.0	40,900.0	3,000.0	42,390.3	43,696.0	44,859.7	0.0	1,251.8	1,341.9
of which -									
Relevant expenditure	29,400.0	32,100.0	2,700.0	33,251.0	34,334.0	35,362.0	0.0	1,045.0	1,282.6
Other current	4,800.0	5,100.0	300.0	5,073.4	5,384.7	5,540.3	0.0	142.2	208.8
Capital	3,700.0	3,700.0	0.0	4,065.9	3,977.3	3,957.4	0.0	64.6	-149.5
PUBLIC CORPORATIONS	1,100.0	1,600.0	500.0	1,387.7	972.2	697.6	0.0	185.8	88.7
of which -									
Nationalised industries	400.0	1,000.0	600.0	687.1	-32.0	-386.2	0.0	344.5	23.9
Other public corporations	700.0	700.0	-100.0	700.6	1,004.2	1,083.8	0.0	-158.7	64.8
Reserve				4,000.0	7,000.0	10,000.0	0.0	-1,500.0	-500.0
Privatisation proceeds	-4,400.0	-5,000.0	-600.0	-5,000.0	-5,000.0	-5,000.0	0.0	0.0	0.0
Adjustments	0.0	190.0	190.0	0.0	0.0	0.0			
PLANNING TOTAL	139,400.0	147,600.0	8,250.0	157,430.0	167,150.0	175,580.0	0.0	3,220.0	5,620.0
GENERAL GOVERNMENT EXPENDITURE	165,100.0	172,900.0	7,800.0						

TABLE 2: LOCAL AUTHORITIES

SPENDING

	Latest estimates of outturn			New plans			Changes from January 1987 White Paper £million		
	1986-87	1987-88	CHANGE	1988-89	1989-90	1990-91	1987-88	1988-89	1989-90
	OUTTURN	ESTIMATED OUTTURN	1986-87 TO 1987-88	PLANS	PLANS	PLANS			
Ministry of Agriculture, Fisheries and Food	190.0	170.0	-20.0	197.2	205.2	210.7	0.0	12.0	15.5
Department of Trade and Industry	80.0	90.0	10.0	89.9	93.3	95.6	0.0	4.9	6.0
Department of Employment	120.0	130.0	10.0	129.6	136.0	139.7	0.0	6.6	10.3
Department of Transport	2,480.0	2,440.0	50.0	2,644.3	2,712.6	2,787.2	0.0	-60.0	-52.0
DOE - Housing	1,270.0	1,140.0	-130.0	1,686.0	1,538.6	1,460.8	0.0	55.0	-152.0
DOE - Other environmental services	3,420.0	3,660.0	240.0	3,372.1	3,476.2	3,569.8	0.0	15.1	43.1
Home Office	4,250.0	4,760.0	510.0	4,933.9	5,110.7	5,264.8	0.0	276.2	330.6
Department of Education and Science	13,230.0	14,470.0	1,230.0	15,044.3	15,564.7	16,021.9	0.0	428.5	545.9
Office of Arts and Libraries	480.0	520.0	40.0	496.7	514.1	529.5	0.0	13.0	18.0
DHSS - Health and personal social services	2,740.0	3,030.0	290.0	3,127.6	3,225.7	3,321.8	0.0	110.0	133.0
DHSS - Social security	3,470.0	3,790.0	320.0	3,719.9	3,981.4	4,101.4	0.0	141.9	202.7
Scottish Office	3,940.0	4,330.0	380.0	4,524.6	4,627.8	4,770.9	0.0	185.1	162.7
Welsh Office	1,540.0	1,700.0	160.0	1,687.6	1,738.1	1,792.6	0.0	53.4	65.7
Northern Ireland	720.0	700.0	-20.0	736.6	771.6	793.1	0.0	10.1	12.2
TOTAL	37,900.0	40,900.0	3,000.0	42,390.3	43,696.0	44,859.8	0.0	1,251.8	1,341.7

TABLE 3: PUBLIC CORPORATIONS*

	Latest estimates of outturn			New plans			Changes from January 1987 White Paper £million		
	1986-87	1987-88	CHANGE	1988-89	1989-90	1990-91	1987-88	1988-89	1989-90
	OUTTURN	ESTIMATED OUTTURN	1986-87 TO 1987-88	PLANS	PLANS	PLANS			
Ministry of Defence	-10.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Overseas Development Administration	20.0	10.0	-10.0	32.2	33.0	33.8	0.0	0.0	0.0
Ministry of Agriculture, Fisheries and Food	10.0	20.0	10.0	19.7	17.5	18.0	0.0	0.0	0.0
Department of Trade and Industry	170.0	-20.0	-200.0	-111.6	-161.7	-157.7	0.0	-26.7	-75.3
Department of Energy	-1,100.0	-120.0	980.0	-389.3	-644.2	-846.9	0.0	124.3	24.2
Department of Employment	0.0	0.0	0.0	0.6	0.6	0.6	0.0	0.0	0.0
Department of Transport	970.0	970.0	10.0	1,046.1	909.6	891.2	0.0	89.4	-10.7
DOE - Housing	20.0	10.0	-10.0	17.0	88.6	120.6	0.0	-60.5	8.0
DOE - Other environmental services	130.0	-80.0	-210.0	-0.5	79.2	86.9	0.0	-102.4	27.5
DHSS - Health and personal social services	30.0	10.0	-20.0	-71.9	0.0	0.0	0.0	0.0	0.0
Scottish Office	480.0	380.0	-100.0	383.4	196.6	84.3	0.0	156.7	106.6
Welsh Office	60.0	80.0	10.0	84.7	91.7	94.1	0.0	-0.7	1.5
Northern Ireland	330.0	390.0	60.0	384.0	368.0	378.4	0.0	5.7	6.9
Chancellor's departments	-10.0	-10.0	0.0	-6.7	-6.7	-5.7	0.0	0.0	0.0
TOTAL	1,100.0	1,600.0	500.0	1,387.7	972.2	697.6	0.0	185.8	88.7

*For nationalised industries and most public corporations the planning total includes their external finance. For nationalised industries' external financing limits for 1988-89, see table .

TABLE 4:
DEPARTMENTAL EXPENDITURE
(including local authority spending
and public corporations)

	Latest estimates of outturn			New plans			Changes from January 1987 White Paper £million		
	1986-87 OUTTURN	1987-88 ESTIMATED OUTTURN	CHANGE 1986-87 TO 1987-88	1988-89 PLANS	1989-90 PLANS	1990-91 PLANS	1987-88	1988-89	1989-90
Ministry of Defence	18,150.0	18,950.0	800.0	19,201.0	19,949.0	20,556.2	0.0	221.0	485.0
FCO - Diplomatic wing	630.0	700.0	70.0	716.7	735.8	755.8	0.0	-12.9	-10.8
FCO - Overseas Development Administration	1,290.0	1,330.0	40.0	1,430.0	1,502.7	1,548.9	0.0	31.2	61.6
European Communities	1,090.0	1,410.0	310.0	803.8	1,594.0	1,333.7	0.0	350.0	520.0
Ministry of Agriculture, Fisheries and Food	1,860.0	2,130.0	270.0	2,283.9	2,392.9	2,545.0	0.0	-108.6	-99.9
Department of Trade and Industry	2,100.0	1,110.0	-980.0	1,228.1	1,185.7	1,133.4	0.0	258.2	219.7
Export Credits Guarantee Department	260.0	160.0	-100.0	162.0	113.4	132.8	0.0	51.4	66.7
Department of Energy	-190.0	470.0	660.0	120.8	-184.7	-414.8	0.0	164.1	52.8
Department of Employment	3,880.0	4,100.0	230.0	4,267.5	4,330.7	4,383.5	0.0	56.2	18.3
Department of Transport	4,710.0	4,800.0	90.0	5,144.2	5,111.6	5,209.0	0.0	59.9	-27.2
DOE - Housing	2,600.0	2,520.0	-80.0	3,018.2	3,003.0	3,042.5	0.0	-14.0	-104.0
DOE - other environmental services	3,920.0	4,010.0	90.0	3,814.2	4,002.0	4,105.0	0.0	-61.5	89.9
Home Office	5,160.0	5,790.0	630.0	6,054.2	6,306.9	6,477.0	0.0	357.1	440.8
Legal departments	670.0	870.0	200.0	964.2	1,032.8	1,095.6	0.0	23.7	30.0
Department of Education and Science	15,690.0	17,170.0	1,480.0	17,994.6	18,666.3	19,182.2	0.0	658.0	839.6
Office of Arts and Libraries	820.0	890.0	80.0	900.5	937.9	969.2	0.0	48.6	64.5
DHSS - health and personal social services	17,920.0	19,560.0	1,640.0	20,677.3	21,684.3	22,641.9	0.0	810.0	933.0
DHSS - social security	44,400.0	46,300.0	1,900.0	48,502.6	50,854.6	53,579.2	0.0	1,050.6	1,535.8
Scotland	7,740.0	8,210.0	480.0	8,511.0	8,608.4	8,762.3	0.0	402.7	387.5
Wales	3,060.0	3,330.0	280.0	3,442.0	3,543.8	3,655.6	0.0	144.0	150.8
Northern Ireland	4,640.0	4,890.0	250.0	5,120.5	5,305.6	5,480.8	0.0	82.7	111.3
Chancellor's departments	2,070.0	2,300.0	230.0	2,438.5	2,553.5	2,637.6	0.0	134.6	141.9
Other departments	1,320.0	1,440.0	120.0	1,636.7	1,921.0	1,770.9	0.0	8.3	215.6
TOTAL	143,800.0	152,500.0	8,700.0	158,430.0	165,150.0	170,580.0	0.0	4,720.0	6,120.0

TABLE 5: PUBLIC EXPENDITURE

	Latest estimates of outturn			New plans			Changes from January 1987 White Paper £million		
	1986-87	1987-88	CHANGE	1988-89	1989-90	1990-91	1987-88	1988-89	1989-90
	OUTTURN	ESTIMATED OUTTURN	1986-87 TO 1987-88	PLANS	PLANS	PLANS			
Ministry of Defence	18,150.0	18,950.0	800.0	19,201.0	19,949.0	20,556.2	0.0	221.0	485.0
FCO - Diplomatic wing	630.0	700.0	70.0	716.7	735.8	755.8	0.0	-12.9	-10.8
FCO - Overseas Development Administration	1,290.0	1,330.0	40.0	1,430.0	1,502.7	1,548.9	0.0	31.2	61.6
European Communities	1,090.0	1,410.0	310.0	803.8	1,594.0	1,333.7	0.0	350.0	520.0
Ministry of Agriculture, Fisheries and Food	1,860.0	2,130.0	270.0	2,283.9	2,392.9	2,545.0	0.0	-108.6	-99.9
Department of Trade and Industry	2,100.0	1,110.0	-980.0	1,228.1	1,185.7	1,133.4	0.0	258.2	219.7
Export Credits Guarantee Department	260.0	160.0	-100.0	162.0	113.4	132.8	0.0	51.4	66.7
Department of Energy	-190.0	470.0	660.0	120.8	-184.7	-414.8	0.0	164.1	52.8
Department of Employment	3,880.0	4,100.0	230.0	4,267.5	4,330.7	4,383.5	0.0	56.2	18.3
Department of Transport	4,710.0	4,800.0	90.0	5,144.2	5,111.6	5,209.0	0.0	59.9	-27.2
DOE - Housing	2,600.0	2,520.0	-80.0	3,018.2	3,003.0	3,042.5	0.0	-14.0	-104.0
DOE - other environmental services	3,920.0	4,010.0	90.0	3,814.2	4,002.0	4,105.0	0.0	-61.5	89.9
Home Office	5,160.0	5,790.0	630.0	6,054.2	6,306.9	6,477.0	0.0	357.1	440.8
Legal departments	670.0	870.0	200.0	964.2	1,032.8	1,095.6	0.0	23.7	30.0
Department of Education and Science	15,690.0	17,170.0	1,480.0	17,994.6	18,666.3	19,182.2	0.0	658.0	839.6
Office of Arts and Libraries	820.0	890.0	80.0	900.5	937.9	969.2	0.0	48.6	64.5
DHSS - health and personal social services	17,920.0	19,560.0	1,640.0	20,677.3	21,684.3	22,641.9	0.0	810.0	933.0
DHSS - social security	44,400.0	46,300.0	1,900.0	48,502.6	50,854.6	53,579.2	0.0	1,050.6	1,535.8
Scotland	7,740.0	8,210.0	480.0	8,511.0	8,608.4	8,762.3	0.0	402.7	387.5
Wales	3,060.0	3,330.0	280.0	3,442.0	3,543.8	3,655.6	0.0	144.0	150.8
Northern Ireland	4,640.0	4,890.0	250.0	5,120.5	5,305.6	5,480.8	0.0	82.7	111.3
Chancellor's departments	2,070.0	2,300.0	230.0	2,438.5	2,553.5	2,637.6	0.0	134.6	141.9
Other departments	1,320.0	1,440.0	120.0	1,636.7	1,921.0	1,770.9	0.0	8.3	215.6
TOTAL DEPARTMENTAL EXPENDITURE	143,800.0	152,500.0	8,700.0	158,432.5	165,151.2	170,583.3	0.0	4,715.3	6,122.9
Reserve				4,000.0	7,000.0	10,000.0	0.0	-1,500.0	-500.0
Privatisation proceeds	-4,400.0	-5,000.0	-600.0	-5,000.0	-5,000.0	-5,000.0	0.0	0.0	0.0
Adjustments	0.0	190.0	190.0	0.0	0.0	0.0	0.0	0.0	0.0
PLANNING TOTAL	139,400.0	147,600.0	8,250.0	157,430.0	167,150.0	175,580.0	0.0	3,220.0	5,620.0

*Mrs GAGS
(A.K. also
M.P.)*

TABLE 6: CENTRAL GOVERNMENT

	Latest estimates of outturn			New plans			Change from January 1987 White Paper(1) £million		
	1986-87	1987-88	CHANGE	1988-89	1989-90	1990-91	1987-88	1988-89	1989-90
	OUTTURN	ESTIMATED OUTTURN	1986-87 TO 1987-88	PLANS	PLANS	PLANS			
CENTRAL GOVERNMENT									
Ministry of Defence	18,160.0	18,950.0	780.0	19,201.0	19,949.0	20,556.2	0.0	221.0	485.0
FCO - Diplomatic wing	630.0	700.0	70.0	716.7	735.8	755.8	0.0	-12.9	-10.8
FCO - Overseas Development Administration	1,270.0	1,310.0	40.0	1,397.7	1,469.8	1,515.1	0.0	31.2	61.6
European Communities	1,090.0	1,410.0	330.0	803.8	1,594.0	1,333.7	0.0	350.0	520.0
Ministry of Agriculture, Fisheries and Food	1,670.0	1,950.0	280.0	2,067.0	2,170.2	2,316.3	0.0	-120.6	-115.4
Department of Trade and Industry	1,840.0	1,050.0	-790.0	1,249.8	1,254.1	1,195.5	0.0	280.0	289.0
Export Credits Guarantee Department	260.0	160.0	-100.0	162.0	113.4	132.8	0.0	51.4	66.7
Department of Energy	910.0	590.0	-320.0	510.1	459.5	432.1	0.0	39.8	28.6
Department of Employment	3,760.0	3,980.0	220.0	4,137.3	4,194.2	4,243.2	0.0	49.6	8.0
Department of Transport	1,260.0	1,390.0	130.0	1,453.9	1,489.4	1,530.7	0.0	30.5	35.5
DOE - Housing	1,310.0	1,370.0	50.0	1,315.2	1,375.8	1,461.2	0.0	-8.5	40.0
DOE - other environmental services	360.0	430.0	60.0	442.6	446.6	448.3	0.0	25.8	19.3
Home Office	910.0	1,030.0	130.0	1,120.3	1,196.2	1,212.1	0.0	80.9	110.2
Legal departments	670.0	870.0	200.0	964.2	1,032.8	1,095.7	0.0	23.7	30.0
Department of Education and Science	2,460.0	2,700.0	240.0	2,950.3	3,101.5	3,160.4	0.0	229.5	293.7
Office of Arts and Libraries	340.0	370.0	30.0	403.8	423.8	439.7	0.0	35.6	46.5
DHSS - health and personal social services	15,150.0	16,520.0	1,360.0	17,621.6	18,458.6	19,320.1	0.0	700.0	800.0
DHSS - social security	41,000.0	42,600.0	1,600.0	44,782.7	46,873.2	49,477.8	0.0	908.7	1,333.1
Scottish Office	3,310.0	3,500.0	190.0	3,603.0	3,784.0	3,907.1	0.0	60.9	118.2
Welsh Office	1,450.0	1,560.0	100.0	1,669.7	1,714.0	1,768.9	0.0	91.3	83.6
Northern Ireland	3,590.0	3,800.0	200.0	3,999.9	4,166.0	4,309.3	0.0	66.9	92.2
Chancellor's departments	2,080.0	2,310.0	230.0	2,444.2	2,560.2	2,643.3	0.0	133.5	141.8
Other departments	1,320.0	1,440.0	120.0	1,636.7	1,921.0	1,770.9	0.0	8.3	215.6
TOTAL CENTRAL GOVERNMENT	104,800.0	109,900.0	5,100.0	114,650.0	120,480.0	125,030.0	0.0	3,280.0	4,690.0

TABLE 7: LOCAL AUTHORITIES

SPENDING

	Latest estimates of outturn			New plans			Changes from January 1987 White Paper £million		
	1986-87	1987-88	CHANGE	1988-89	1989-90	1990-91	1987-88	1988-89	1989-90
	OUTTURN	ESTIMATED OUTTURN	1986-87 TO 1987-88	PLANS	PLANS	PLANS			
Ministry of Agriculture, Fisheries and Food	190.0	170.0	-20.0	197.2	205.2	210.7	0.0	12.0	15.5
Department of Trade and Industry	80.0	90.0	10.0	89.9	93.3	95.6	0.0	4.9	6.0
Department of Employment	120.0	130.0	10.0	129.6	136.0	139.7	0.0	6.6	10.3
Department of Transport	2,480.0	2,440.0	50.0	2,644.3	2,712.6	2,787.2	0.0	-60.0	-52.0
DOE - Housing	1,270.0	1,140.0	-130.0	1,686.0	1,538.6	1,460.8	0.0	55.0	-152.0
DOE - Other environmental services	3,420.0	3,660.0	240.0	3,372.1	3,476.2	3,569.8	0.0	15.1	43.1
Home Office	4,250.0	4,760.0	510.0	4,933.9	5,110.7	5,264.8	0.0	276.2	330.6
Department of Education and Science	13,230.0	14,470.0	1,230.0	15,044.3	15,564.7	16,021.9	0.0	428.5	545.9
Office of Arts and Libraries	480.0	520.0	40.0	496.7	514.1	529.5	0.0	13.0	18.0
DHSS - Health and personal social services	2,740.0	3,030.0	290.0	3,127.6	3,225.7	3,321.8	0.0	110.0	133.0
DHSS - Social security	3,470.0	3,790.0	320.0	3,719.9	3,981.4	4,101.4	0.0	141.9	202.7
Scottish Office	3,940.0	4,330.0	380.0	4,524.6	4,627.8	4,770.9	0.0	185.1	162.7
Welsh Office	1,540.0	1,700.0	160.0	1,687.6	1,738.1	1,792.6	0.0	53.4	65.7
Northern Ireland	720.0	700.0	-20.0	736.6	771.6	793.1	0.0	10.1	12.2
TOTAL	37,900.0	40,900.0	3,000.0	42,390.3	43,696.0	44,859.8	0.0	1,251.8	1,341.7
of which:-									
Relevant expenditure	29,400.0	32,100.0	2,700.0	33,251.0	34,334.0	35,362.0	0.0	1,045.0	1,282.6
Other current	4,800.0	5,100.0	300.0	5,073.4	5,384.7	5,540.3	0.0	142.2	208.8
Capital	3,700.0	3,700.0	0.0	4,065.9	3,977.3	3,957.4	0.0	64.6	-149.5

TABLE 8: PUBLIC CORPORATIONS*

	Latest estimates of outturn			New plans			Changes from January 1987 White Paper Emillion		
	1986-87 OUTTURN	1987-88 ESTIMATED OUTTURN	CHANGE 1986-87 TO 1987-88	1988-89 PLANS	1989-90 PLANS	1990-91 PLANS	1987-88	1988-89	1989-90
Ministry of Defence	-10.0	0.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Overseas Development Administration	20.0	10.0	-10.0	32.2	33.0	33.8	0.0	0.0	0.0
Ministry of Agriculture, Fisheries and Food	10.0	20.0	10.0	19.7	17.5	18.0	0.0	0.0	0.0
Department of Trade and Industry	170.0	-20.0	-200.0	-111.6	-161.7	-157.7	0.0	-26.7	-75.3
Department of Energy	-1,100.0	-120.0	980.0	-389.3	-644.2	-846.9	0.0	124.3	24.2
Department of Employment	0.0	0.0	0.0	0.6	0.6	0.6	0.0	0.0	0.0
Department of Transport	970.0	970.0	10.0	1,046.1	909.6	891.2	0.0	89.4	-10.7
DOE - Housing	20.0	10.0	-10.0	17.0	88.6	120.6	0.0	-60.5	8.0
DOE - Other environmental services	130.0	-80.0	-210.0	-0.5	79.2	86.9	0.0	-102.4	27.5
DHSS - Health and personal social services	30.0	10.0	-20.0	-71.9	0.0	0.0	0.0	0.0	0.0
Scottish Office	480.0	380.0	-100.0	383.4	196.6	84.3	0.0	156.7	106.6
Welsh Office	60.0	80.0	10.0	84.7	91.7	94.1	0.0	-0.7	1.5
Northern Ireland	330.0	390.0	60.0	384.0	368.0	378.4	0.0	5.7	6.9
Chancellor's departments	-10.0	-10.0	0.0	-6.7	-6.7	-5.7	0.0	0.0	0.0
TOTAL	1,100.0	1,600.0	500.0	1,387.7	972.2	697.6	0.0	185.8	88.7
of which:-									
Nationalised industries	400.0	1,000.0	600.0	687.1	-32.0	-386.2	0.0	344.5	23.9
Other public corporations	700.0	700.0	-100.0	700.6	1,004.2	1,083.8	0.0	-158.7	64.8

*For nationalised industries and most public corporations the planning total includes their external finance. For nationalised industries' external financing limits for 1988-89, see table .

CONFIDENTIAL

FROM: A G TYRIE

DATE: 21 OCTOBER 1987

CHANCELLOR

cc Chief Secretary
 Financial Secretary
 Paymaster General
 Economic Secretary
 Sir T Burns
 Mr F E R Butler
 Sir P Middleton
 Mr J Anson
 Mr F Cassell
 Mr Cropper
 Mr Call

CHAPTER ONE OF THE AUTUMN STATEMENT

A few minor suggestions:

- i. **Summary.** Paragraph 1.5 UK Trade and Current Account. Would it be worth adding a line on the margin of error in current account forecasts and, possibly, the small size of deficits in relation to the overall flows?
- ii. **World Economy.** Paragraph 1.8. Rather than (line 2) 'large changes in exchange rates', a substantial readjustment in exchange rates might be preferable.
- iii. **Paragraph 1.20.** Exchange rates. I suggest (line 4) 'sterling has reflected and contributed to this general stability ...'
- iv. **Paragraph 1.50.** Unemployment. I suggest taking out the word 'substantial' (line 9), which could become a hostage to fortune.

R. Johnson.

78.
A G TYRIE

FROM: MRS T C BURNHAMS
DATE: 21 OCTOBER 1987

MR SEDGWICK
MR TURNBULL
MISS PEIRSON
MISS O'MARA
MR SCOTTER
MR DYER
MR FLITTON
MR FRAY
MISS TITMUISS
MISS CRANG

cc Mr Scholar
Mr A C S Allan
Miss Rutter
Mr R I G Allen
Mr Saunders
Mr Rawlings
Mr S J Davies
Mr McIntyre
Mr Gieve
Miss Walker
Miss Evans
Mr P Allum
Mrs Ryding
Mr D Savage
Mr Tyrrie (for backbenchers' brief)

AUTUMN STATEMENT

... I attach a detailed aide memoire covering the arrangements for this year's Autumn Statement. I would be grateful for any comments as soon as possible. There are few entries for EB and Miss O'Mara may wish to suggest some additions.

2. There was some criticism last year of the distribution arrangements set out in the Aide Memoire and to meet this I have attempted to simplify the layout. All detailed information about distribution is to be found in the Annexes together with release times.

3. The Aide Memoire includes arrangements for a Treasury press notice but I would be grateful for confirmation from IDT and GE as to whether this will be necessary and if so what it might say.

4. The last few days leading up to the release of the Autumn Statement is a particularly busy one for Office Services and Rod Rawlings would therefore welcome any early indication, from all who have need of their services, as to what exact requirements for copying, security, messengers etc will be so that the necessary arrangements can be put in hand.

5. The total numbers of the various documents produced are largely based on previous experience but if exact requirements have changed please let me know at once.

Teresa Burnham
MRS T C BURNHAMS

KEY TO DRAFT AIDE MEMOIRE

(a)	INDIVIDUALS	
BD	Brian Dyer	Parliamentary Section
NF	Nigel Fray	CH/EX's Office
JF	John Flitton	IDT
LH	Lowrie Hoosan	EB
AA	Alex Allan	CH/EX's Office
MO'M	Margaret O'Mara	EB
JG	John Gieve	GE
SW	Sarah Walker	GE
RR	Rod Rawlings	EOG
TB	Teresa Burnhams	FP
CR	Cathy Ryding	CH/EX's Office
MH	Meena Henson	EB
DS	David Savage	IF
AT	Andrew Tyrie	Special Adviser
BC	Beryl Crang	Committee Section

(b) DIVISIONS ETC

CRU	Central Reproduction Unit
FP	Fiscal Policy
EA	Domestic Economy Forecasting and Analysis Division
GE	General Expenditure
IDT	Information Division
CS	Committee Section
EB	Economic Briefing
IF	International Finance
ETS	Economic Taxation and Social Security
ST	Social Services and Territorial

OS	Oral Statement
AS	Autumn Statment
HMTPN	Treasury Press Notice
OGDPN	Other Government Department Press Notice

AIDE MEMOIRE

Thursday 22 October

- (1) GE submit Chancellor's speaking note and Chief Secretary's paper for 29 October Cabinet. GE/FP
- (2) Cabinet told likely date of Autumn Statement.
- (3) pm. Departments warned in confidence that Chancellor is planning to make oral statement on 3 November and press notices will be required by the 2nd; PFOs should tell HMT if they intend to issue one or more PN and clear text with HMT and provide 100 copies to HMT the day before issue. GE to provide draft confidential PS letter confirming deadline for PNs to reach IIMT and requesting a contact name. Special letter should be drafted for DOE to remind them they have been tardy in past and importance of adherence to timetable. SW
- (4) GE submit draft Chapter 2 of AS to Chancellor. JG
- (5) EB commission briefing on the economy for 29 October Cabinet. EB/GE
GE commission briefing on public expenditure for 29 October Cabinet.
- (6) Chancellor comments on Chapters 3 & 4 of AS by 2pm. AA
- (7) FP send Chapters 3 and 4 of Autumn Statement to printers by 4pm. FP
- (8) Chancellor comments on OS. AA/FP

Friday 23 October

- (9) PS/Chancellor writes to departments with timetable for press notices. AA
- (10) Parliamentary Section put on notice the Treasury spokesman in the House of Lords. BD
- (11) FP submit revised OS to Chancellor (if necessary). FP

Monday 26 October

- (12) GE finalise briefing for 1st Order Questions. GE
- (13) GE submit revised Cabinet paper to Treasury Ministers. GE
- (14) Printers send 1st proof of Chapters 3 & 4 to FP by 6pm. FP
- (15) EA send Chapter 1 to FP who send to printers by 1pm. EA/FP

Tuesday 27 October

- (16) Final version of arranged PQ to Chancellor. GE
- (17) Briefing and speaking note for Cabinet submitted to Treasury Ministers. FP/EB/GE
- (18) GE sends first draft of Chapter 2 to FP for delivery to printers by 6pm. GE/FP

Wednesday 28 October

- (19) Chapters 3 & 4 revised and returned to FP who return them to printers by midday. ST/ETS/FP
- (20) Printers return Chapters 1 & 2 to FP by 6pm. FP submit to Chancellor. FP
- (21) Conservative Backbenchers' brief drafted. To be decided if brief should be included in AS package for Cabinet Ministers. AT

Thursday 29 October

- (22) pm. Treasury 1st Order Questions.
- (23) Chapters 1 & 2 revised and returned to FP who send them to printers by 4pm. EA/GE/FP

Friday 30 October

- (24) Printers send book proofs (all chapters) to HMT by 6pm. FP
- (25) Chancellor's Office send OS to PM if necessary. AA
- (26) EB submit draft AS briefing to Chancellor. GE/EB
- (27) Chancellor confirms which Radio/TV interviews he and other Treasury Ministers will undertake. AA/IDT
- (28) FP inform IDT of the number of OGDPNs. TB
- (29) Letter sent to Deliverer of the Vote, Clerk of Printed Papers and Librarians in Commons and Lords establishing arrangements for release of AS to MPs and Lords at end of OS. BD
- (30) HMTPN prepared by GE and delivered to CRU for copying. GE/CRU
- (31) Conservative Backbenchers' brief submitted to Chancellor. AT
- (32) IDT issue operational note to the press and media announcing AS publication day and finalise arrangements for issuing OS. IDT
- (33) IF write to Embassies and High Commissions confirming copies of AS material will be available for collection on AS day after OS. DS
- (34) Chancellor's Office contact C&E, IR, Bank of England, NEDO, CBI, Conservative Research Department, Nationalised Industries Chairmen's Group, about arrangements for delivery/collection of AS packages. Check with FCO despatch arrangements for overseas copies. NF
- (35) Chancellor's Office arrange preparation of addressed envelopes/labels for those on Annex B. NF

Saturday 31 October

- (36) am. Book proofs checked by authors and returned to printers by midday. FP/GE/EA/
ST/ETS

Monday 2 November

- (37) 8am. AS read at press. EA/GE/FP
- (38) OS finalised and sent to CRU for copying. AA/CRU
- (39) Copies of ⁶ODPNs to Chancellor's Office (FP to chase if not received from Departments). FP/NF
- (40) Chancellor returns Conservative Backbenchers' brief and Office Services check with AT when it will be ready for copying and numbers required. RR/AT

Tuesday 3 November

Autumn Statement Day

- (41) 8am. EB distribute copies of AS brief to No 10, Treasury Ministers, Lord Young, PCC and other specified Treasury officials. EB
- (42) LH to give NF 9 copies of AS brief to include in package B for British Embassy Washington, UKREP Brussels, BIS New York, British Embassy Paris to be despatched as at Annex B. LH/NF
- (43) Chancellor's Office confirm length of OS with IDT to guide Radio/TV, and with BD to enable him to inform Speaker. AA/BD
- (44) 10am. CRU deliver copies of OS and HMT PN for distribution. See Annex A. CRU/RR
- (45) FP authorise HMSO to deliver printed Autumn Statement to the House. FP
- (46) HMSO deliver 735 copies of printed AS to HMT by 10am to be distributed as at Annex A. Recipients to collect from post room. RR
- (47) Official Box List for Statement and Allocation of Gallery Seats to be given to BD by 10.30 CR
- (48) Copies of Autumn Statement package distributed as at Annex B. BD collects 1 package for Speaker to be delivered by 2.30 at latest. NF/BD
- (49) CR to arrange for copy of OS to reach Official Report. CR
- (50) EB to ensure all officials in Official Box have copies of AS brief. LH
- (51) 11am. BD delivers (under embargo) 1000 copies of HMT PN to Vote Office, House of Commons and 150 copies to Printed Paper Office, House of Lords. Other distribution as at Annex C. BD
- (52) AA to notify PS Lord Young of any changes to AS brief. AA
- By 3pm
- (53) BD to collect 4 x package A from Chancellor's Office and deliver to Lords Whips' Office (see Annex B). BD

(54) Chancellor's Office to deliver remaining copies of package A to PPS
Chancellor's room in House (see Annex B).

NF

OS started

(55) IDT collects copies from CS and deliver to Lobby for distribution (see
Annex D). IDT implement page by page release to PA/Reuters.

JF/BC

(56) 2 copies of AS formally laid on the Table of each House.

BD

After OS

(57) Release AS package prepared by IDT for press, to departmental press
officers and to press callers at Main Door.

JF

(58) IDT distribute remaining AS package as at Annex D.

JF

(59) NF to deliver copies of package B to be collected from Enquiry Room.

NF

(60) BD to take 8 copies of OS, AS and HMT PN for House Libraries.

BD

(61) IF to collect 16 copies of package B from Chancellor's Office.

DS/NF

ANNEX A

SOURCE AND INITIAL DISTRIBUTION OF AS MATERIAL

Aide Memoire Reference	44, 46	A/S	O/S	HMTPN	OGDPNs
Source					
HMSO		733			
CRU			627	2105	
OGDPs					100

A/S

120 to Library
170 to Chancellor's Office
410 to Committee Section
13 to Parliamentary Branch
20 to FP

O/S

170 to Chancellor's Office
435 to IDT
22 to Parliamentary Branch

HMTPN

170 to Chancellor's Office
770 to Committee Section/IDT
1160 to Parliamentary Branch
5 to EB

OGDPs

100 to Chancellor's Office

DISTRIBUTION BY CHANCELLOR'S OFFICE

Aide Memoire

Reference 35, 48, 53, 54

<u>Received from</u>	A/S	O/S	HMTPN	OGDPN's
HMSO	170			
CRU		170	170	
OGDP's				100

Distributed to

PACKAGE A (A/S, O/S, IIMTPN, OGDPN's)

Prime Minister	)	The Speaker*	)	By 12.30
Chancellor))	
Chief Secretary	)	By 12.30 Mr A C S Allan)	
Financial Secretary	)	Mr J Taylor	)	By 1.00
Paymaster General	)	Mrs Ryding)	
Economic Secretary	)	Chancellor of the Duchy of Lancaster	)	To be
Sir Peter Middleton	)	Secretary of State for Trade & Industry	)	delivered to
Sir Terence Burns	)	Leader of the House of Commons	)	PPS CX room
Sir Geoffrey Littler	)	Leader of the Lords	)	at House
Mr F E R Butler	)	Leader of the Opposition	)	by 3pm
Miss Mueller	)	Shadow Chancellor	)	AA to advise
Mr A Wilson	)	Mr Steel	)	on exact time
Mr Anson	)	Mr MacLennan	)	of release
Mr Cassell	)	Mr Molyneux)	
Mr Kemp	)	Chancellor's PPS)	
Mr Monck	)	Chairman of Conservative Committee)	
Mr Byatt	)	Chairman PAC)	
Mr Scholar	)	Chairman TCSC)	
Mr D J L Moore	)	Mr McKay (Clerk TCSC))	
Mr Sedgwick	)	Vice Chamberlain of the Household)	
Mr Peretz	)	(Tristan Garel-Jones MP))	
Mrs Lomax	)	ASAP)	
Mr Odling-Smee	)	Leader of Opposition (Lords)	)	BD to take
Mr Turnbull	)	Leader of Liberals (Lords)	)	to Lords
Miss Peirson	)	Leader of SDP (Lords)	)	Whips Office
Mr R I G Allen	)	Government Chief Whip (Lords)	)	by 3pm. AA to
Miss O'Mara (3 copies)	)		)	advise on
Mr Give	)		)	exact time
Mr Gilhooly	)		)	of release
Mr Easton))	
Mr M G Richardson))	
Miss Evans	)	Total No of AS Package A - <u>62 copies</u>)	
Mrs Burnhams))	
Mr Cropper))	
Mr Call	)	*BD to collect Speaker's package - see reference (48))	
Mr Tyrie))	

Aide Memoire
Reference 42, 59, 61

PACKAGE B (A/S, O/S, HMTPN)

Mr Unwin (C&E))
Mr Battishill (IR)		) to be collected by C&E, IR and
Customs & Excise	- 2 copies	) B/E messengers from Chancellor's
Inland Revenue	- 2 copies	) messengers' lobby at 2pm
Bank of England	- 2 copies)
NEDO	- 3 copies)
CBI	- 3 copies	) After O/S to be collected from
TUC	- 3 copies	) Enquiry Room by own messengers
NICG	- 3 copies	) or despatched as requested
CRD	- 3 copies)
Diplomatic Missions	- 16 copies	After O/S to be collected by IF
British Embassy Washington	- 3 copies	) After OS to be sent via
UKREP Brussels	- 4 copies	) FCO
British Embassy Paris		After O/S to be sent via FCO by 6pm bag
Principal Finance Officers	- 25 copies	) After O/S
Other Cabinet Ministers	- 25 copies	After O/S

Total Number of AS Package B - 102 copies

	A/S	O/S	HMTPN	OGDPNs
<u>Remaining copies</u>				
<u>despatched to</u>				
IDT				30
Official Report		1		
Chancellor's Office spares	6	1	6	8

DISTRIBUTION BY PARLIAMENTARY BRANCH

Aide Memoire
Reference 51

	A/S	O/S	HMTPN	OGDPN	
<u>Received from</u>					
HMSO	12				
CRU		21	1158		
Chancellor's Office	1	1	1	1	
<u>Despatched to</u>					
Vote Office/PPO			1150		by 11.00
Speaker*	1	1	1	1	by 12.30
Govt Whips (Commons)		5			by 12.30
Govt. Whips (Lords)		8			by 12.30
House Libraries	8	8	8		after O/S
Formal Presentation to Commons/Lords	4				during O/S
TOTAL	13	22	1159	1	

*BD to collect from Chancellor's Office
(see reference (48))

DISTRIBUTION BY IDT

Aide Memoire
Reference 58

	A/S	O/S	HMTPN	OGDPN's	
<u>Received from</u>					
Committee Section	410	435	770		
Chancellor's Office				30	
<u>Despatched to</u>					
Press Gallery Lobby	130	155	130		During O/S
Press	150	150	150)
Non-Press			50)
Deptl Press Officers	40	40	40)
Specialist briefing	40	40	40	12	) After O/S
Treasury Mailing list	-	-	310)
IDT + spares	30	30	30	18)
FFJG	20	20	20)
 Total	 410	 435	 770	 30	

4 The revenue effects of illustrative tax changes

4.01 The tables below show the effects of various illustrative tax changes on receipts ^{tax} ~~of tax~~ in 1988-89 and 1989-90.

4.02 The effects of tax changes depend on economic variables, such as prices, earnings and consumer expenditure. The estimates shown are consistent with the economic forecast given in Chapter 1.

4.03 An illustrative rate of inflation of 4 per cent has been used to show the effects of indexation and revalorisation in 1988-89. This is in line with the annual rate of increase in the RPI forecast for the fourth quarter of 1987.

4.04 The tables show estimates of the direct effects of tax changes. In practice, tax changes will themselves affect economic variables, which in turn will have further effects on tax yields and on the PSBR. The estimated direct effects are not, therefore, the same as the effects on the PSBR. The approach used here is explained in the Annex to Chapter 4 of the Financial Statement and Budget Report published in March 1987.

Indexation of allowances, thresholds and bands for 1988-89.

4.05 Tables 4.1 to 4.3 show tax allowances, thresholds, and bands for 1988-89 after 4 per cent indexation. For income tax, rounding follows the rules laid down in the 1980 Finance Act; for inheritance tax and capital gains tax those laid down in the 1982 Finance Act. Estimates of the revenue effects of these changes are shown in Table 4.4.

Table 4.1 Income tax

	£	
	1987-88	1988-89
Allowances:		
Single and wife's earned income allowance	2 425	2 525
Married allowance	3 795	3 955
Additional personal and widow's bereavement allowance	1 370	1 430
Single age allowance (age 65-79)	2 960	3 080
Married age allowance (age 65-79)	4 675	4 865
Single age allowance (age 80 and over)	3 070	3 200
Married age allowance (age 80 and over)	4 845	5 045
Aged income limit	9 800	10 200
Income tax rates		
	Bands of taxable income	
	£	
Per cent	1987-88	1988-89
27	0-17 900	0-18 700
40	17 901-20 400	18 701-21 300
45	20 401-25 400	21 301-26 500
50	25 401-33 300	26 501-34 800
55	33 301-41 200	34 801-43 100
60	Over 41 200	Over 43 100

is it normally called this, or "Revenue Receipts"?

Table 4.2 Inheritance tax

Rate on death	Bands of chargeable value	
	£'000	
Per cent	1987-88	1988-89
Nil	0-90	0-94
30	90-140	94-146
40	140-220	146-229
50	220-330	229-344
60	Over 330	Over 344

Table 4.3 Capital gains tax

	£	
	1987-88	1988-89
Annual exempt amount:		
Individuals	6 600	6 900
Trusts	3 300	3 450

Table 4.4 Costs of indexation in 1988-89

	£ million	
	1988-89	1989-90
Indexation of income tax allowances and thresholds	920	1390
Of which:		
Increases in main personal allowances	760	1100
Increase in the basic rate limit*	110	160
Increases in further higher rate thresholds*	50	120
Indexation of inheritance tax thresholds and bands	25	60
Indexation of capital gains exempt amounts	-	10

* Additional costs after previous changes have been introduced.

Direct revenue effects of illustrative changes in income tax and corporation tax

4.06 Table 4.5 shows estimates of the direct revenue effects of illustrative changes in income tax and corporation tax. For income tax allowances and thresholds, these are changes from an indexed base.

4.07 The effects of the illustrative changes can be scaled up or down over a reasonably wide range. However, the extra cost of increasing allowances and, in particular, higher rate thresholds tends to fall as the allowances or thresholds rise. For this reason, effects are given for different percentage changes.

4.08 The total cost of a group of income tax allowances changes can be broadly assessed by adding together the revenue effects of each change. However, if allowances are increased substantially and combined with a reduction in basic or higher rates, the effects of the rate reductions will be reduced. In such cases, the cost or yield obtained by adding components from the ready reckoner should be considered only as a general guide.

Table 4.5 Direct effects of illustrative changes in income tax and corporation tax (1)

	£ million	
	1988-89 cost/yield	1989-90 cost/yield
Income tax		
Rates		
Change basic rate by 1p(2)	1200	1525
Change all higher rates by 1p	80	155
Personal allowances		
Change single and wife's earned income allowance by £100	295	380
Change married allowance by £100	240	305
Change single age allowances (4) by £100	23	30
Change married age allowances (4) by £100	22	26
Change aged income limit by £200	4	5
Change all main personal allowances by 1 percent	180	255
Change all main personal allowances by 10 percent:		
increase (cost)	1750	2350
decrease (yield)	1825	2400
Higher rate thresholds(3)		
Change all higher rate thresholds by 1 percent:		
increase (cost)	30	55
decrease (yield)	30	55
Change all higher rate thresholds by 10 percent:		
increase (cost)	270	485
decrease (yield)	350	595
Allowances and thresholds (3)		
Change all main personal allowances and higher rate thresholds by 1 percent	210	305
Change all main personal allowances and higher rate thresholds by 10 percent		
increase (cost)	2025	2800
decrease (yield)	2200	3000
Corporation tax (5)		
Change full rate by 1 percentage point	360	560
Change small companies' rate by 1 percentage point (6)	25	45

1 The estimated revenue effects of changes in the basic rate of income tax and in the main personal allowances of 10 percent are rounded to the nearest £25m; effects of less than £50m are rounded to the nearest £1m.

2 Including the effects of the change on receipts of advance corporation tax and on consequent liability to mainstream corporation tax.

3 Percentage changes are calculated with reference to 1987-88 levels.

4 Including higher age allowance for those aged 80 or over.

5 Assessment to corporation tax normally relates to the preceding year. These estimates are, therefore, the changes to revenue that would occur if the changed rates were applied to incomes from 1 April 1987.

6 These figures ignore any possible associated changes in the imputation system.

Indirect taxes

4.09 Table 4.6 shows estimates of the effects of changes in excise duties. The first part shows the extra revenue from the individual duties if they were to be increased by exactly 4 per cent, together with the price increase that would result (after allowing for consequential VAT). The second part shows the revenue yield from changing current levels of duty so that (after VAT) the price of a typical item is changed by the amount shown.

4.10 Table 4.7 shows the revenue effects of a 1 percentage point change in the rate of VAT.

4.11 Within limits the illustrative changes for specific duties can be scaled up or down to give a reasonable guide to the revenue effects. However, with large changes the margins of uncertainty surrounding the effects on sales and hence on revenue become progressively large, and scaled estimated will be less reliable.

Table 4.6 Revenue effects of indirect tax changes

	Current level of duty on typical items	4% Revalorisation ¹		Changes from present levels of duty				
		Price change inc. VAT ²	£m yield in ³		Price change inc. VAT ²	Actual percentage change in duty	£m cost/yield in ³	
			1988-89	1989-90			1988-89	1989-90
Beer	18.6p	0.9p	65	70	1p	4.7	75	85
Wine (70cl bottle of table wine) ⁴	68.6p	3.2p	20	25	5p	6.3	35	40
Spirits (bottle)	£4.73	21.8p	25	30	10p	1.8	10	15
Cigarettes (20 king-size) ⁵	93.4p	3.7p	95	110	1p	1.1	25	30
Petrol (gallon)	88.1p	4.1p	215	235	1p	1.0	55	60
Derv (gallon) ⁶	74.5p	3.4p	40	45	1p	1.2	15	15
VED (cars and light vans)	£100.00	£4.00	65	85	£1.00	1.0	20	20

¹ An 'across the board' revalorisation by 4 per cent (including the minor duties not shown above) would yield about £590m in 1988-89 and £645m in 1989-90, and the impact on the RPI would be to raise it by 0.3 per cent.

² VAT is payable in addition to the duty except in the case of VED.

³ Assuming implementation on 1 April 1988.

⁴ Revenue effects include all wines.

⁵ The duty on cigarettes has ad valorem and specific elements; the percentage change relates only to the specific element, but the price change includes the subsequent increase in ad valorem duty and VAT.

⁶ Revenue effects allow for offsetting increase in bus fuel grants

Table 4.7 VAT

	£ m cost/yield in	
	1988-89	1989-90
1% change in rate of VAT ¹	930	1 315

¹ Assuming implementation on 1 April 1988

Autumn Statement 1986

HM TREASURY
NOVEMBER, 1986

Cm 14

4 Oil taxation and revenue ready reckoner

Repayment of Advance Petroleum Revenue Tax (APRT)

4.01 The Government announced on 6 November its intention to introduce a Bill early in the new session of Parliament to bring forward certain repayments of APRT due to the oil companies which under the present law would have been spread over the next three financial years.

4.02 APRT advances the payment of Petroleum Revenue Tax (PRT) into the early years of an oil field's production. These advance payments may be set against future PRT. Under the provisions of the 1983 Finance Act, these payments were, in any event, coming to an end: the last period for which APRT is payable ends on 31 December 1986. The fall in the oil price means that some fields will not start to produce profits on a scale sufficient to generate PRT liabilities until much later than expected (if at all) and so will not be able to utilise their APRT credits. Under current law, APRT would not be repaid until 1988 or later. The proposed measure would bring forward to March 1987 repayments of APRT credits on fields that had not reached payback by 30 June 1986, up to a limit of £15 million per company per field.

4.03 This measure would have a revenue cost in 1986-87 of up to £310 million, which would be fully recouped over the next three years (£130 million in 1987-88, £120 million in 1988-89 and £60 million in 1989-90).

Revenue ready reckoner

4.04 The tables below show the effects of various illustrative tax changes on receipts of tax in 1987-88 and 1988-89.

4.05 The effects of tax changes depend on economic variables, such as prices, earnings and consumer expenditure. The estimates shown are consistent with the economic forecast given in Chapter 1.

4.06 An illustrative rate of inflation of $3\frac{1}{4}$ per cent has been used to show the effects of indexation and revalorisation in 1987-88. This is in line with the annual rate of increase in the RPI forecast for the fourth quarter of 1986.

4.07 The tables show estimates of the direct effects of tax changes. In practice, tax changes will themselves affect economic variables, which in turn will have further effects on tax yields and on the PSBR. The estimated direct effects are not, therefore, the same as the effects on the PSBR. The approach used here is explained in the Annex to Chapter 4 of the Financial Statement and Budget Report published in March 1986.

4.08 The estimates of the effects in 1988–89 assume that the levels of allowances, rates of duty etc set for 1987–88 continue to apply in 1988–89.

Indexation of allowances, thresholds and bands for 1987–88

4.09 Tables 4.1 to 4.3 show tax allowances, thresholds, and bands for 1987–88 after 3¼ per cent indexation. For income tax, rounding follows the rules laid down in the 1980 Finance Act; for inheritance tax and capital gains tax those laid down in the 1982 Finance Act. Estimates of the revenue effects of these changes are shown in Table 4.4.

Table 4.1 Income tax

	£	
	1986–87	1987–88
Allowances:		
Single and wife's earned income allowance	2 335	2 415
Married allowance	3 655	3 775
Additional personal and widow's bereavement allowance	1 320	1 360
Single age allowance	2 850	2 950
Married age allowance	4 505	4 655
Aged income limit	9 400	9 800
<hr/>		
Income tax rates	Bands of taxable income	
	£	
Per cent	1986–87	1987–88
29	0–17 200	0–17 800
40	17 201–20 200	17 801–20 900
45	20 201–25 400	20 901–26 300
50	25 401–33 300	26 301–34 500
55	33 301–41 200	34 501–42 700
60	Over 41 200	Over 42 700

Table 4.2 Inheritance tax

Rate on death	Bands of chargeable value	
	£'000	
Per cent	1986–87	1987–88
Nil	0–71	0–74
30	71–95	74–99
35	95–129	99–134
40	129–164	134–170
45	164–206	170–213
50	206–257	213–266
55	257–317	266–328
60	Over 317	Over 328

Table 4.3 Capital gains tax

	£	
	1986-87	1987-88
Annual exempt amount:		
Individuals	6 300	6 600
Trusts	3 150	3 300

Table 4.4 Costs of indexation in 1987-88

	£ million	
	1987-88	1988-89
Indexation of income tax allowances and thresholds	710	950
Of which:		
Increases in main personal allowances	600	760
Increase in the basic rate limit*	70	110
Increases in further higher rate thresholds*	40	80
Indexation of inheritance tax thresholds and bands	18	40
Indexation of capital gains exempt amounts	—	5

* Additional costs after previous changes have been introduced.

Direct revenue effects of illustrative changes in income tax and corporation tax

4.10 Table 4.5 shows estimates of the direct revenue effects of illustrative changes in income tax and corporation tax. For income tax allowances and thresholds, these are from the indexed levels for 1987-88.

4.11 The effects of the illustrative changes can be scaled up or down over a reasonably wide range. However, the extra cost of increasing allowances and, in particular, higher rate thresholds tends to fall as the allowances or thresholds rise. For this reason, effects are given for different percentage changes.

4.12 The total cost of a group of income tax allowance changes can be broadly assessed by adding together the revenue effects of each change. However, if allowances are increased substantially and combined with a reduction in basic or higher rates, the effects of the rate reductions will be reduced. In such cases, the cost or yield obtained by adding components from the ready reckoner should be considered only as a general guide.

Table 4.5 Direct effects of illustrative changes in income tax and corporation tax¹

	£ million	
	1987-88 cost/yield	1988-89 cost/yield
Income tax		
<i>Rates</i>		
Change basic rate by 1p ²	1 100	1 450
Change all higher rates by 1p	65	150
<i>Personal allowances³</i>		
Change single and wife's earned income allowance by £100	290	380
Change married allowance by £100	235	300
Change single age allowance by £100	24	32
Change married age allowance by £100	23	30
Change aged income limit by £200	4	6
Change all main personal allowances by 1 per cent	175	225
Change all main personal allowances by 10 per cent:		
increase (cost)	1 725	2 200
decrease (yield)	1 800	2 275
<i>Higher rate thresholds³</i>		
Change all higher rate thresholds by 1 per cent:		
increase (cost)	25	50
decrease (yield)	25	50
Change all higher rate thresholds by 10 per cent:		
increase (cost)	215	450
decrease (yield)	290	575
<i>Allowances and thresholds³</i>		
Change all main personal allowances and higher rate thresholds by 1 per cent	200	275
Change all main personal allowances and higher rate thresholds by 10 per cent:		
increase (cost)	1 925	2 650
decrease (yield)	2 100	2 900
Corporation tax⁴		
Change full rate by 1 percentage point	210	390
Change small companies' rate by 1 percentage point ⁵	20	40

¹ The estimated revenue effects of changes in the basic rate of income tax and in the main personal allowances of 10 per cent are rounded to the nearest £25m; other effects over £50m are rounded to the nearest £5m; effects of less than £50m are rounded to the nearest £1m.

² Including the effect of the change on receipts of advance corporation tax and on consequent liability to mainstream corporation tax.

³ For simplicity, percentage changes are calculated with reference to 1986-87 levels.

⁴ Assessment to corporation tax normally relates to the preceding year. These estimates are, therefore, the changes to revenue that would occur if the changed rates were applied to incomes from 1 April 1986.

⁵ These figures ignore any possible associated changes in the imputation system.

Indirect taxes 4.13 Table 4.6 shows estimates of the effects of changes in excise duties. The first part shows the extra revenue from the individual duties if they were to be increased by exactly 3¼ per cent, together with the price increase that would result (after allowing for consequential VAT). The second part shows the revenue yield from changing current levels of duty so that (after VAT) the price of a typical item is changed by the amount shown.

4.14 Table 4.7 shows the revenue effects of a 1 percentage point change in the rate of VAT.

4.15 Within limits the illustrative changes for specific duties can be scaled up or down to give a reasonable guide to the revenue effects. However, with large changes the margins of uncertainty surrounding the effects on sales and hence on revenue become progressively larger, and scaled estimates will be less reliable.

Table 4.6 Revenue effects of indirect tax changes

	Current level of duty on typical items	3¼% Revalorisation ¹		Changes from present levels of duty				
		Price change inc. VAT ²	£m yield in ³		Price change inc. VAT ²	Actual percentage change in duty	£m cost/yield in ³	
			1987-88	1988-89			1987-88	1988-89
Beer (pint)	18.6p	0.7p	55	60	1p	4.7	75	90
Wine (70 cl bottle of table wine) ⁴	68.6p	2.6p	20	20	5p	6.3	35	40
Spirits (bottle)	£4.73	17.7p	25	30	10p	1.8	15	15
Cigarettes (20 kingsize) ⁵	92.7p	3.0p	75	85	1p	1.1	25	30
Petrol (gallon)	88.1p	3.3p	165	185	1p	1.0	50	55
Derv (gallon)	74.5p	2.8p	40	45	1p	1.2	15	15
VED (cars and light vans)	£100.00	£3.25	65	65	£1.00	1.0	20	20

¹ An 'across the board' revalorisation by 3¼ per cent (including the minor duties not shown above) would yield about £475m in 1987-88 and £525m in 1988-89, and the impact on the RPI would be to raise it by 0.3 per cent.

² VAT is payable in addition to the duty except in the case of VED.

³ Assuming implementation on 1 April 1987.

⁴ Revenue effects include all wines.

⁵ The duty on cigarettes has ad valorem and specific elements; the percentage change relates only to the specific element, but the price change includes the subsequent increase in ad valorem duty and VAT.

Table 4.7 VAT

	£m cost/yield in	
	1987-88	1988-89
1% change in rate of VAT ¹	800	1 130

¹ Assuming implementation on 1 April 1987.

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Cathy
NP

Cathy
Any comments?
Help please on para 1.46
and 1.55.

Cathy Rydman
22/10

MINUTES OF A MEETING HELD AT 3.00 PM ON WEDNESDAY
21 OCTOBER IN CHANCELLOR'S ROOM, HM TREASURY

Those present

- Chancellor
- Sir P Middleton
- Sir T Burns
- Mr Cassell
- Mr Sedgwick
- Mr Turnbull
- Mr R I G Allen
- Miss G C Evans
- Mr Cropper
- Mr Tyrie

DRAFT OF CHAPTER 1 OF THE AUTUMN STATEMENT

The Chancellor said he had a number of detailed comments on the text which he would pass on separately to Mr Sedgwick.

Numbers

2. The Chancellor noted that in the light of developments on the BP issue, the planning total shown in the Autumn Statement for 1987-88 should be £1 billion below the White Paper figure. Sir T Burns said that growth in 1988 had been revised to 3 per cent in the light of developments over the last few days. However, domestic demand was still likely to grow at 4 per cent. He had also been looking again at the prospects for the current account in 1987 and 1988 and suggested a £2 billion deficit for 1987 and £3 billion deficit for 1988. The Chancellor asked Sir T Burns to look again at the numbers in table 1.4. The decline in non-oil exports from 6 per cent in 1987 to 2½ per cent in 1988 was particularly striking. He was uneasy about the gap between growth in domestic demand and the economy as a whole. On the current account, recent monthly figures had been so erratic that he thought it was sensible

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to stay with the FSBR figure of a deficit of £2½ billion in 1987. The market would then find it easier to accept a deficit of £3½ billion in 1988. Sir T Burns noted that a deficit of £2½ billion for 1987 implied that the Q4 figure would be £½ billion worse than Q3, and that for the second half of the year the current balance was running at an annual rate of -£6 billion. It was agreed to publish figures of -£2½ billion for 1987 and -£3½ billion for 1988. Mr Sedgwick noted that the forecast for money GDP for 1988-89 was now 7¾ per cent rather than 8 per cent.

Charts

3. Chart 1.1. This chart should be redrawn to show commodity prices deflated by a suitable world price deflator, and to cover the period 1970 to-date.

Chart 1.2. Redraw to start in 1970.

Chart 1.3. No changes.

Chart 1.4. Delete the dotted forecast line and redraw the scale so export volumes do not seem as flat.

Chart 1.5. This should be redrawn to show volume and value shares with the line on developed countries deleted.

Charts 1.6 and 1.7. No changes.

Chart 1.8. Delete.

Charts 1.9 and 1.10. No changes

Chart 1.11. Redraw to clearly distinguish between forecast and outturn.

Chart 1.12. If room permits, redraw as a deeper chart.

Chart 1.13. Delete - the points in the chart could be better explained in the text.

Text

4. Stock market. The form of words on recent developments would have to be considered carefully. However, this should be left until the last possible moment. It would be necessary to decide in the light of developments how much prominence to give to these comments. There were various points in the text where they could be included

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Summary. This should include at the beginning a snappy "summary of the summary" on growth and inflation.

Paragraph 1.6. Redraft to read "It assumes that sterling remains close to recent levels"

Paragraph 1.16. Delete.

Paragraph 1.17. This currently refers to the G7 countries in total, whereas the real story is the performance of the US compared to Germany and Japan.

Paragraphs 1.17 and 1.18. There is an odd contrast between "net exports will be much stronger" in paragraph 1.17 and "somewhat slower import volumes growth" in paragraph 1.18. These paragraphs should be reconsidered.

Paragraph 1.20. ~~And~~ Delete "but have been somewhat more volatile in the latest period". ~~and~~ replace with "remained broadly stable". ~~The same amendment needs~~ to be made to the end of the paragraph. The specific reference to stability against the deutschemark should be retained.

Paragraph 1.34. Delete.

Delete 'fluctuated narrowly in the six months'

Paragraph 1.35. Delete the first half of the paragraph, ie from "Statistics published for the first half of 1987" to "consumer demand remains very strong".

Paragraph 1.36. Shorten substantially.

Paragraph 1.37. Redraft to give more prominence to the section on non-North Sea ICCs.

Paragraph 1.38. Redraft in a more "up beat" way - for example, business investment has been growing more strongly in 1987 following a dip in 1986 caused by the corporation tax changes.

Paragraph 1.39. Shorten substantially.

Paragraph 1.40. The phrase "a more negative contribution" is difficult to grasp and should be redrafted.

Paragraph 1.42. The comment that "the rate of increase of costs of materials and fuel had been around twice as fast as expected" was unhelpful. It should be redrafted to read "has risen by X per cent more than expected".

Redraft to make clear that the reference to revalorising specific

Paragraph 1.46. *duties is a conventional assumption.*

Paragraph 1.49. Shorten considerably.

Paragraph 1.50. This should refer to a continued, rather than a substantial fall in unemployment.

Paragraph 1.51. This needs redrafting from scratch. It should start with a reference to the exchange rate and the remainder of the paragraph should be shortened considerably. *This might be another place to refer to recent market developments.*

Expand

Paragraph 1.55. The distinction between receipts and revenue ~~was~~ *and receipts on the public expenditure side* was important. It would be helpful to always refer to capital receipts if they were on the expenditure side of the account.

~~It was suggested that the last sentence should read~~ *Two thirds of this downward revision is due to a higher forecast of receipts attributable to the receipts side and the remaining one third to the expenditure side.*

Tables

5. Tables 1.1, 1.2, 1.3. No changes.

Tables 1.4 and 1.5. Figures for non-oil GDP should be included in brackets. Table 1.4 should be merged with table 1.5.

Tables 1.6, 1.7 and 1.8. No changes.

Table 1.9. Sir T Burns would investigate the possibility of showing output per full-time equivalent.

Tables 1.10 to 1.12. The PSBR for 1987-88 in table 1.12 would be revised to £1.0 billion or £1.1 billion after allowing for lower privatisation proceeds. This table should include a

memorandum item

line showing the PSBR excluding privatisation proceeds. The formulation suggested by Mr Saunders in this minute of 20 October should be tried. Figures for money GDP should be removed from this table and inserted into table 1.13.

Table 1.13. This was a confusing table showing calendar year changes in the top half of the table, Q4 figures in the middle, and financial years at the bottom. The top half of the table should be redrawn based on the FSBR tables (ie years down the side and categories of expenditure along the top). The bottom half of the table should remain as at present.

22 October 1987

Circulation

Those present
Chief Secretary
Mr F E R Butler
Mr Scholar

CATHY RYDING - *redraft*

Paragraph 1.56. *Third sentence to read: 'This is largely accounted for by higher capital receipts of local authorities and new towns.'*

MCS 22/10 I am sorry that I have held this up.

FROM: I SCOTTER
DATE: 21 OCTOBER 1987

- 1. MR SCHOLAR
- 2. CHANCELLOR OF THE EXCHEQUER

- cc PS/Chief Secretary
- PS/Financial Secretary
- Sir P Middleton
- Mr Cassell
- Miss O'Mara
- Mr Riley
- Miss Sinclair (o/r)
- Mr Hibberd
- Miss Evans
- Mr Eason - IR
- Mr Allen - C & E
- Mrs Hamill - C & E

OK? AA OK

AUTUMN STATEMENT: CHAPTER 4

I attach a draft of Chapter 4. This is almost identical to last year's 'Revenue ready reckoner' section of Chapter 4 (copy attached) with dates and figures revised.

2. The first three paragraphs of last year's Chapter 4, 'Repayment of Advance Petroleum Revenue Tax' gave first details of a new measure. There is no equivalent measure this year, so those paragraphs have been deleted.

3. All figures for 1988-89 and 1989-90 are provisional at this stage and will have to be amended to take account of the latest forecast. But they should give a reasonably close estimate of the revenue effects of the various illustrative changes.

4. With your approval, we plan to send Chapter 4 to the printers on Thursday 22 October.

↑ Further only just received
We did not receive this till Friday afternoon

IAN SCOTTER

FROM: M C SCHOLAR
DATE: 21 OCTOBER 1987

CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Sir Peter Middleton
- Sir Terence Burns
- Mr F E R Butler
- Mr Odling-Smee
- Mr Peretz
- Mr Sedgwick
- Mr Turnbull
- Mr Gieve
- Miss O'Mara
- Mr R I G Allen
- Mr McIntyre (paras 26-28 only)
- Miss C Evans
- Mr Cropper
- Mr Tyrie
- Mr Call

Ch
 No need for polished draft yet, but helpful to get thoughts on structure & presentation

A long way from what is wanted. Grateful if you can advise on what we have a redraft which follows for the closer, which

AUTUMN STATEMENT: ORAL STATEMENT

last year's. (instead of X, most likely be gov't oral delivery sooner & ... date at least)

... I attach a first draft of your oral statement planned for 3 November. It is based on contributions by Messrs Turnbull, Sedgwick and McIntyre.

has left more room for programme sp... M.

2. It is an upbeat presentation which, for the moment, says nothing about the implications of the fall in markets for the economic prospects. You have agreed that we should consider nearer the time whether and to what extent we will need to modify our assessment of the outlook for the world economy.
3. The order follows closely that adopted last year (copy attached for convenience).
4. The October Reserves figures will be published on the day of the Autumn Statement and you may decide nearer the time that you want to include some reference to this.

Unlikely

MCS

M C SCHOLAR

SECRET

AUTUMN STATEMENT 1987: ORAL STATEMENT: DRAFT OF 21 OCTOBER

With permission, Mr Speaker, I should like to make a statement.

2. I am laying before the House today an Autumn Statement which [brings together the Government's outline public expenditure plans for the next three years] [gives details of the expenditure plans which I announced in aggregate last Thursday], makes proposals for National Insurance contributions next year, and sets out the forecast of economic prospects for 1988 required by the 1975 Industry Act.

Public Expenditure in 1987-88

3. I turn first to the expected outturn for the current financial year, 1987-88.

4. The public expenditure planning total now looks likely to amount to £147½ billion, or around £1 billion less than was allowed for in last year's public expenditure White Paper. The underspend [on the planning total] mainly reflects higher [capital] receipts [of] local authorities and new towns. In other respects spending is expected to be in line with plans.

5. Debt interest is also expected to be very close to the forecast made at the time of the Budget, so that the total shortfall on the expenditure side is also about £1 billion.

1987-88 Revenues

6. On the receipts side non-oil revenues are benefitting from the strong growth of the economy and seem likely to be about £1½ billion higher than I expected at the time of the Budget. Corporation tax has risen strongly following the surge in profits in recent years. Income tax, national insurance contributions and VAT are also buoyant. North Sea revenues are likely to be £½ billion higher than expected largely because the oil price has been above the \$15 assumed in the Budget forecast.

1987-88 PSBR

7. [With] This increase of £2 billion in tax revenues, together with the reduction of £1 billion in expenditure, I ^{means that} _^ ^{now} _^ expect the PSBR for the current financial year to be about £1 billion in total, about £3 billion less than was forecast at the time of the Budget, [This estimate is subject to the normal ^{though the} margin of error at this time of year. ^{is large} _^

or omit this?

Public Expenditure Plans

8. I turn now to the public expenditure plans for the next three years.

9. Since 1982-83 public spending, both before and after deducting the proceeds of privatisation, has been declining as a proportion of national output. There is likely to be a further substantial fall this year, producing the longest sustained fall since the war time economy was unwound.

*This is true
with including
and excluding
privatisation
proceeds.*

10. In July, the Cabinet reaffirmed the objective of ensuring that public spending declined as a share of national output, at least as fast as envisaged in the last White Paper. The plans that I am about to announce will not only secure that objective but will produce a share ^{which is} [even] lower than [we set ourselves] last year.

11. New planning totals have been set at £a billion for 1988-89 and £b billion for 1989-90, increases of £c billion and £d billion over the totals previously published. For 1990-91 the planning total has been set at £d billion.

12. The ^{se} totals ^{privatisation proceeds} [incorporate the proceeds of privatisation], the plans for which are unchanged at £5 billion a year.

13. I have also thought it prudent to set aside ^{large Reserves} within the planning totals [larger Reserves] than in previous years. These

will be £g billion in 1988-89, rising to £h billion in 1990-91.

Rewrite this to make it snappier and avoid long & boring intro.

14. The significance of these plans can be assessed in terms of the share of national output and the growth in real terms that they imply. As measured by general government expenditure, ie the combined spending of central and local government, including debt interest, but excluding privatisation proceeds, the share of public spending in national output in 1986-87 was 44 per cent, having fallen from 47 per cent in 1982-83. This year the share is likely to fall to around 42 $\frac{3}{4}$ per cent, so that the proportion is now below where it was in 1978-79 and is on a declining rather than a rising trend. By 1990-91 it will have fallen to 41 $\frac{1}{4}$ per cent, the lowest since 1972. The new ratios are lower in each year than those published in the last White Paper.

Make more of this.

Underlying this has been a success in cutting back the rate of growth of spending.

15. In the 1960s and 1970s public spending (using the same measure) grew by around 3 per cent a year in real terms. In the four years to 1982-83 the growth was 2 $\frac{1}{4}$ per cent; in the four years to 1986-87 just under 1 $\frac{3}{4}$ per cent; and in the succeeding four years, that is the current year plus the three Survey years, the growth is planned to be less than 1 $\frac{1}{4}$ per cent a year, well within the prospective growth of the economy as a whole.

16. Within these plans, the Government has been able to *provide additional resources for* [strengthen] a number of priority services.

An extra £700 million is being provided for

17. [Spending on] the National Health Service in England [will be increased by £700 million] in 1988-89, and ^{an extra} £800 million in 1989-90. On top of this there will be the additional resources from a new programme for increasing hospital income, from the cost improvement programmes and from land sales. [These combined resources] ^{All this} will enable the NHS to continue to improve services.

This is in the wrong place - it should be item 2 in list of priority programmes

18. £1 billion extra in 1988-89 and £1.9 billion in 1989-90 is being set aside for social security expenditure. This takes account of the decision announced last May to increase income related benefits to reflect the average cost to claimants of paying 20 per cent of rates. It also reflects the statement on benefits made by my RHF the Secretary of State for Social Services on 27 October.

19. Provision has also been made for a substantial increase and acceleration in the prison building programme.

20. Provision for defence has been increased by £230 million in 1988-89 and £490 million in 1989-90, an increase of some 2 per cent in cash terms over previous plans.

21. Provision for local authority current spending has been increased by £1 billion in 1988-89 and £1¼ billion in 1989-90. Nearly half of this is accounted for by education and another 15 per cent by the police.

Drafting repetitive, like the Queen's Speech. We also want some references to outputs, not just cash sums. How many more prisons etc?

22. On top of the increased provision for the cost of education in schools which is contained within the local authority current expenditure, an extra £60 million a year has been provided for capital expenditure on the improvement of school buildings. There will also be additional spending on the universities, including the restructuring of academic pay already announced, of £115 million in 1988-89 and £130 million in 1989-90; and a further £45 million and £65 million for science.

23. Gross provision for housing investment is being increased by nearly £400 million next year. This will not only sustain the rising trend of spending on local authority renovation, but provide additional resources for housing associations, much of it to be used in conjunction with private finance. £5 million next year, rising to £50 million the year after, is being made available for Housing Action Trusts. Provision for Urban Development Corporations is being increased by £65 million next year. These additional amounts are offset by higher than planned capital receipts from sales of houses under the Right to Buy, and from commercial property and land.

24. Taking all the programmes together, the additions to planned capital expenditure amount to over £1 billion in each of the next two years, (mostly for local authorities and nationalised industries.)

25. Further details of these and other changes are contained in the printed Autumn Statement which will be available

All too long and detailed

Haven't said which.

shortly in the Vote Office. In addition full details, together with information on running costs and manpower will be given in the public expenditure White Paper early in the New Year.

National Insurance Contributions

26. I turn now to National Insurance contributions. The Government have conducted the usual autumn review of contributions in the light of advice from the Government Actuary on the prospective income and expenditure of the National Insurance Fund, and taking account of the statement on benefits which my RHF the Secretary of State for Social Services made on 27 October.

27. The Lower Earnings Limit will be increased next April to £41 a week, in line with the single person's pension, and the Upper Earnings Limit will be raised to £305 a week. The limits for the reduced rate bands will also be increased. The upper limits for the 5 per cent and 7 per cent bands will be raised to £70 and £105 respectively. The upper limit for the 9 per cent rate for employers will be raised to £155.

28. The taxpayers' contribution to the National Insurance Fund - the so-called Treasury supplement - will be reduced by 2 per cent to 5 per cent, but this will not require any change in contribution rates. Thus, the main Class I contribution rates will be unchanged at 9 per cent for employees and 10.45 per cent for employers.

Industry Act Forecast

Oh
This needs a complete redraft.
Should Andrew or I be on hand?
AA

29. Finally, I turn to the Industry Act forecast. Growth this year has been both higher than last year and higher than I envisaged at Budget time. Strong growth in domestic demand has been more than matched by the rapid rise in exports. With the British economy expanding more rapidly than the rest of the world there has also been a sharp rise in imports. The strength of the economy is broadly based, and manufacturing output is now expanding rapidly. Unemployment is falling sharply, faster than in any other major industrial country. The performance of the UK economy is all the more remarkable because the world economy has been more subdued than expected last year in the aftermath of the oil price fall.

30. As I expected at Budget time inflation in the fourth quarter of this year is likely to be 4 per cent; and the current account of the balance of payments is forecast to show a modest deficit this year of £2½ billion, or about ½ per cent of GDP.

31. Looking ahead to 1988 the prospect is for a continuation of the steady and satisfactory growth that the economy has enjoyed ^{for over 6 years} in recent years. The other major developed economies are likely to grow on average at the same modest rate of about 2½ per cent which they experienced in 1986 and so far in 1987, but there are some signs that industrial production and world trade in manufactures are already picking up and their growth should rise a little further in 1988.

32. Even with this modest rise in world trade, the world economy will still be growing slowly by past standards. With the UK growing relatively quickly, we can expect a further small increase in the current account deficit to about £3½ billion.

33. During 1987 British business has again ^{achieved} ~~seen~~ high productivity growth and further increases in profitability. There has been virtually no rise in ^{unit} labour costs in manufacturing in 1987 and the prospect is for little or no rise in 1988. Manufacturers' output prices are likely to rise by 4½ per cent in the year to the fourth quarter of 1987, and by a similar amount next year. Retail price inflation may edge up during 1988 but I expect it to fall back again to about 4¾ per cent by the fourth quarter.

34. GDP growth is likely to be 3 per cent in 1988, close to the average of recent years but below the forecast outcome for this year. As in 1987 consumers' expenditure and fixed investment are set to rise at similar rates. If labour costs remain firmly under control and growth is as forecast unemployment should continue its very welcome decline.

Peroration

35. Mr Speaker, the progress and prospects I have described demonstrate once again the soundness of the policies we have followed, now over two Parliaments. This first Autumn Statement of our third term offers a clear prospect of further

sustained growth and steadily rising living standards with unemployment continuing to fall. We have brought this about by promoting enterprise, with sound money and with strong public finances. We will stick to these policies.

PUBLIC EXPENDITURE SURVEY: AUTUMN STATEMENT

On the afternoon of 3 November, the FCO spokesman will issue the following statement:-

In the Autumn Statement, the Chancellor announced revised spending figures for FCO (Diplomatic Wing) programmes. Within these programmes the largest increase is in the 1988/91 Triennial Settlement for the BBC where current expenditure has been increased by £ 4m in 1988/89 and £ 6.5m in 1989/90 to compensate for higher broadcasting costs after taking full account of efficiency savings. The other major increase of £ 2.9m in 1988/89 and £ 4.6m in 1989/90 is for about half the cost of refurbishing the FCO headquarters - a grade I listed building. The remaining half will be found from reductions in the capital programme for Embassies and other diplomatic premises overseas.

The revised figures also contain provisional reductions in several programmes which have benefited from favourable overseas price movements; and a partly offsetting increase in the British Council programme, where overseas price movements have been adverse.

Because of these reductions, and a further reduction resulting from a technical adjustment to the BBC Capital provision, there is a net overall reduction in the FCO (Diplomatic Wing)'s provision of £ 7.9 m in 1988/89 and £ 5.3 m in 1989/90.

psp



FROM: A C S ALLAN
DATE: 22 October 1987

MR DYER

cc Mr Scholar
Miss Evans

AUTUMN STATEMENT

The Chancellor was grateful for your minute of 20 October. He does not see any need for PPSs to mount an operation to counter the risk of a Ten Minute Rule Bill interruption on 10 November.

ACS A

A C S ALLAN



Ch

Good if you could do this before you go. If not, I've kept a copy & you can ring from car

~~AA~~

~~We spoke~~

Mr. (phone willing)

AA

Ch

Cathy & I have now marked this up with all changes P Sedgwick omitted plus a few additional points (marked new)

Thanks. See my remarks.

2. If Mrs G & v attached to 1.31, it can go in small report as a footnote to Table 1.12.

AA



Ch

I haven't had time to crawl through this to check whether all your detailed points have been taken on board (some haven't).

But we do have a chance to polish the text over the weekend or next week.

Main thing now is charts/talks plus major drafting points. See a few comments marked

AA

CONFIDENTIAL

FROM: P N SEDGWICK
DATE: 22 OCTOBER 1987

CHANCELLOR

cc	Chief Secretary	Mr Gieve
	Sir P Middleton	Mr Hibberd
	Sir T Burns	Mr Mowl
	Mr F E R Butler	Miss O'Mara
	Mr Anson	Mr Allum
	Mr Cassell	Mr Dolphin
	Mr Monck	Ms C Evans
	Mr Odling-Smee	Mr Hudson
	Mr Peretz	Mr Owen
	Mr Scholar	Mr Ritchie
	Mr Turnbull	Mr Cropper
	Mr R Allen	Mr Tyrie
	Mr Bottrill	Mr Call
	Mr S Davies	

CHAPTER 1 OF THE AUTUMN STATEMENT : ECONOMIC PROSPECTS FOR 1988

I attach a redraft of this chapter of the AS. It takes account (where these do not conflict) of

- (i) the points discussed and agreed at your meeting yesterday,
- (ii) those agreed at Sir P Middleton's earlier meeting (summarised in the minute of October 20 from Mr Saunders),

and (iii) your manuscript comments on the earlier draft.

I discuss briefly below some of the changes together with outstanding problems in the order that they occur in the text. We need to have comments on and suggested changes to this draft during tomorrow (Friday) morning in order to get a near final version to the printers by lunchtime on Monday.

(i) The summary : paragraph 1.1

2. You asked for a brief summary at the very beginning (as in the 1986 AS, though not the 1987 FSBR). I have provided one that covers growth and inflation. It would be odd to go straight on and repeat the forecast for GDP growth in the next paragraph. I have therefore put the assumptions paragraph second and then carried on with the rest of the summary in the order of the previous draft (which is the order of the 1987 FSBR).

not a good one.

(ii) Assumptions : paragraph 1.2

3. At your meeting we did not discuss the first sentence of this paragraph, which causes problems for some. To omit this by now standard reference to the MTFs might be seen as significant and give rise to suspicions about the commitment to the MTFs. On the other hand the assumption on fiscal stance in the AS is different from that in the 1987

MTFS; the money GDP numbers are above those in the last MTFS for years for which there are fresh forecasts (1987-88 and 1988-89).

4. There is a subsidiary issue of whether the word 'stylised' is necessary in the last sentence.

*I think it has to be falls
(we can easily live with text if
stock mkt recovers)*

Paragraph 1.15

5. This includes the crucial reference to recent developments in stock markets. Reference to "fluctuations" rather than "falls" produces an - admittedly anodyne - text that is less likely to be out of date if the earlier falls have been more or less reversed by the time of the AS.

Chart 1.1 and 1.2

6. We have included versions of these charts deflated by the GNP deflator for the major 7 (rather than the price of traded manufactures). With the latest observations included, Chart 1.2¹ shows the real price of industrial materials rising during 1987. The charts now start in 1970.

shouldn't it cover past only, for consistency?

Charts 1.4 and 1.5

7. Chart 1.4 (the trend in the volume of visible exports less oil) now covers the past only and has a deeper vertical axis. Chart 1.5 (share of world trade) is for total world trade in manufactures only and shows both value and volume shares.

I still don't find it attractive

Paragraph 1.31

8. You queried whether it was necessary to include the discussion of the discrepancies between GDP measures. Given the very large residual error and the associated risk that first estimates of the expenditure measure of GDP in 1987 are (once again) underestimated we feel that there should be some discussion of this in the IAF.

Table 1.4

9. The figure for growth of the volume of non-oil exports of goods and services in 1988 in this table, which worried you yesterday, was a mistake. The correct figure (consistent with the decision on the current account next year) is growth of 3½ per cent. Growth of non-oil visible exports (in table 1.2) is 4 per cent.

Paragraph 1.41

10. You wanted a reference to inflation having "fallen back" during 1987 to average 4 per cent in the fourth quarter. Our expectation is that this

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will not be a smooth process: the forecast for the October RPI - the first month to be published after the AS - is that it will rise to 4.3 or even 4.4 per cent, before falling below 4 per cent for November and December. With the October figure becoming available in the immediate aftermath of the AS, it could look as if the claim about RPI inflation having fallen back had been falsified, and that the forecast for the fourth quarter had been discredited.

?? (but I suppose OK)

Paragraph 1.47

11. The numbers in this paragraph are now for GB (rather than the UK), in line with table 1.7 and our standard practice when briefing.

Table 1.8

- wasn't it sur T?

12. You wanted productivity figures on a full time equivalent (FTE) basis. We cannot produce reliable estimates for 1964-73. We have included in brackets figures for the two later periods - 1973-79 and 1979-87. (We still have to agree some details of the calculations with Department of Employment.) If we were to include FTE figures only that would involve dropping growth rates for 1964-73 and therefore the favourable comparison of manufacturing productivity between 1964-73 and 1979-87 would be lost.

Paragraph 1.51

13. The reference to the stock market in a sentence on MO reads oddly. If there is to be a reference to the stock market it probably needs to be spelled out a little more.

- one suggestion marked.

Paragraphs 1.53 et seq.

14. You wanted to replace 'receipts' with 'revenues' in these paragraphs. In some cases this has been possible, but 'receipts' has been the standard description in the tables (and for the same tables in all the MTFSS since 1980).

Tables 1.1² and 1.1³

15. Table 1.1² is included in the revised format agreed at your meeting. You might like to note that because the preliminary estimate of consumers' expenditure in the third quarter of 1987 (published today) is slightly higher than we had expected consumers' expenditure growth in 1987 now rounds up to 5 per cent. There is therefore a small fall in consumers' expenditure growth - to 4½ per cent - next year. This change still leaves rounded growth of domestic demand at 4 per cent in both 1987 and 1988.

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16. A version of table 1.1³~~2~~ is circulated for the first time. Some of the figures may change after being checked further.

P. N. J.
P N SEDGWICK

CONFIDENTIAL



FROM: A C S ALLAN
 DATE: 22 October 1987

pm

MR GIEVE

cc PS/Chief Secretary
 Mr F E R Butler
 Mr Anson
 Mr Monck
 Mr Turnbull
 Mr Scholar
 Miss Walker
 Mis C Evans

AUTUMN STATEMENT: PUBLIC EXPENDITURE TABLES

The Chancellor was grateful for your minute of 21 October, on what is a tricky issue. There is clearly a case for combining the central government and local authority figures, and doing public corporations separately. But he does not want at this stage to propose a new variant.

2. Of the two options discussed in your note, on balance he prefers the Table 5 series. However doubtful it may be so far as plans are concerned (your point in paragraph 3(iii)), it is clearly better for outturns. And he thinks (though this, too, is a question of balance) that it has the political edge: for example, it shows straight away how much we are spending on education. (It will also, of course, be more popular with the spending Ministers!) The Chancellor feels we can switch to a new presentation when we make the complete switch we have proposed for dealing with local authorities.

3. The Chancellor has two minor comments:

- (i) Table 5 should include a final line for GGE;
- (ii) Table 7 should be headed "Local Authority Spending".

ACSA

A C S ALLAN

CONFIDENTIAL

FROM: B S KALEN
 DATE: 22 OCTOBER 1987

1. MR TURNBULL *AK 22/10*
 2. PRINCIPAL PRIVATE SECRETARY

cc PS/CST
 Sir P Middleton
 Mr F E R Butler
 Mr Anson
 Mr Scholar
 Mr Gieve
 Mr R I G Allen
 Miss O'Mara
 Miss Evans
 Mrs Burnhams

AUTUMN STATEMENT: DEPARTMENTAL PRESS NOTICES

I attach a draft letter for you to send to Private Secretaries asking them to let the Treasury know if they are issuing Press Notices in connection with the Autumn Statement, and to clear the texts of any such notices with their expenditure Divisions.

2. Last year DOE caused problems over this. *I shall ✓* We suggest that rather than send them a special letter, Miss Rutter telephone the Private Secretary and remind him personally of the importance of meeting these deadlines and giving the Treasury adequate opportunity to comment.

Ch

OK for me to write tomorrow?

Barry S. Kalen

B S KALEN

AA

OK in red

DRAFT PRIVATE SECRETARY LETTER

the Prime Minister indicated

As ~~[discussed]~~ at ~~this morning's~~ Cabinet, ~~[it is intended that]~~ ^{will} Cabinet ~~[should]~~ discuss the outcome of the Public Expenditure Survey at its next meeting on 29 October. Assuming all the necessary decisions have been taken, the Autumn Statement will then be made on Tuesday 3 November. The Chancellor hopes that Departments will be ready as usual to issue Press Notices on the same day giving the main features of their programmes, and wherever possible, backing that up with appropriate material on output, rather than emphasising the money spent.

2. The Chancellor attaches particular importance to ensuring that the texts of Press Notices are agreed with the Treasury in advance to ensure both that the figuring is consistent and that the presentation is in line with the way the Autumn Statement as a whole is put over.

3. To ensure that the release of Departmental Press Notices is properly co-ordinated with the announcements from the Treasury, I would be grateful if each Department could:

- close on*
i. notify the relevant Treasury Division by [^] Monday 26 October whether it intends to issue a Press Notice on the day of the Autumn Statement;

- ii. provide Mrs Burnhams here (270 5179, room 93/1), on Monday 26 October, with the name and telephone number of someone in each Department who can be contacted about the arrangements for sending copies to the Treasury;
- iii. show the Treasury Division concerned a draft by close on Wednesday 28 October;
- iv. arrange for the contact to inform Mrs Burnhams by close on Thursday 29 October if there is to be any modification of the Press Notice following the Cabinet discussion;
- v. provide Mrs Burnhams with 100 copies of the Press Notice by 4.00 pm on Monday 1 November ^{at the very latest}.

Although these plans are being made to allow for the Statement to be made on 3 November, this cannot of course be taken for granted. It will depend on the ~~settlement of any programmes still outstanding and the Cabinet discussion itself.~~ ^{conclusions of} For the time being, therefore, no public statement of the likely date of the Statement should be made. I should be grateful if you could ensure that knowledge of the arrangements is confined to those who need to know. If Departments are asked about the date of the Statement, they should say that the public expenditure round has not yet been concluded and that the Autumn Statement will be made as soon as practicable after final agreement has been reached.

David Norgrove (No 10) to

4. I am copying this letter to Private Secretaries
of Ministers in charge of Departments, ~~to David Norgrove~~
(~~No 10~~) and to Sir Robert Armstrong (Cabinet Office).

[ACSA]

BOX

FROM: B S KALEN
 DATE: 22 OCTOBER 1987

1. MR TURNBULL *22/10*
2. PRINCIPAL PRIVATE SECRETARY

cc PS/CST
 Sir P Middleton
 Mr F E R Butler
 Mr Anson
 Mr Scholar
 Mr Gieve
 Mr R I G Allen
 Miss O'Mara
 Miss Evans
 Mrs Burnhams

AUTUMN STATEMENT: DEPARTMENTAL PRESS NOTICES

I attach a draft letter for you to send to Private Secretaries asking them to let the Treasury know if they are issuing Press Notices in connection with the Autumn Statement, and to clear the texts of any such notices with their expenditure Divisions.

2. Last year DOE caused problems over this. We suggest that rather than send them a special letter, Miss Rutter telephone the Private Secretary and remind him personally of the importance of meeting these deadlines and giving the Treasury adequate opportunity to comment.

Barry S. Kalen

B S KALEN

Mrs Ryding

cc Mr Kalen

As discussed I attach an amended draft. I have informed Mr Kalen.

Carys Evans

22.10

DRAFT PRIVATE SECRETARY LETTER

The Prime Minister indicated at

As ^{yesterday's} ~~discussed at this morning's~~ Cabinet, it is intended that Cabinet ^{will} should discuss the outcome of the Public Expenditure Survey at its next meeting on 29 October. Assuming all the necessary decisions have been taken, the Autumn Statement will then be made on Tuesday 3 November. The Chancellor hopes that Departments will be ready as usual to issue Press Notices on the same day giving the main features of their programmes, and wherever possible, backing that up with appropriate material on output, rather than emphasising the money spent.

2. The Chancellor attaches particular importance to ensuring that the texts of Press Notices are agreed with the Treasury in advance to ensure both that the figuring is consistent and that the presentation is in line with the way the Autumn Statement as a whole is put over.

3. To ensure that the release of Departmental Press Notices is properly co-ordinated with the announcements from the Treasury, I would be grateful if each Department could:

- i. notify the relevant Treasury Division by ^{close on} Monday 26 October whether it intends to issue a Press Notice on the day of the Autumn Statement; ~~and whether their Minister intends to hold a Press~~ ^{and whether their Minister intends to hold a} Press conference;

X

ii. provide Mrs Burnhams here (270 5179, room ~~93~~⁴⁴/1), on Monday 26 October, with the name and telephone number of someone in each Department who can be contacted about the arrangements for sending copies to the Treasury;

iii. show the Treasury Division concerned a draft by close on Wednesday 28 October ~~and~~ ^{with them} ~~clear any subsequent modification~~ ~~with the Division;~~

~~iv. arrange for the contact to inform Mrs Burnhams by close on Thursday 29 October if there is to be any modification of the Press Notice following the Cabinet discussion;~~

^{deliver}
iv. ~~provide Mrs Burnhams with 100 copies of the Press Notice~~ ^{agreed} by ~~4.00 pm~~ ^{12 noon} on Monday ~~2~~ ² November.
(to Mr N Fray in this office (room 12/2))

Although these plans are being made to allow for the Statement to be made on 3 November, this cannot of course be taken for granted. It will depend on the ~~conclusions of settlement of any programmes still outstanding and the Cabinet discussion itself.~~ For the time being, therefore, no public statement of the likely date of the Statement should be made. I should be grateful if you could ensure that knowledge of the arrangements is confined to those who need to know. If Departments are asked about the date of the Statement, they should say that the public expenditure round has not yet been concluded and that the Autumn Statement will be made as soon as practicable after final agreement has been reached.

v. arrange for copies of the Press Notice to be available to Members in the Vote Office and Printed Paper Office when the Chancellor sits down on Tuesday 3 November.

David Norgrove (No 10), to
4. I am copying this letter to Private Secretaries
of Ministers in charge of Departments, ~~to David Norgrove~~
(~~No 10~~) and to Sir Robert Armstrong (Cabinet Office).

[ACSA]

to the Private Secretaries to the
Chairmen of the Revenue Departments

CONFIDENTIAL

pmg

FROM: JOHN GIEVE

DATE: 22 October 1987

MRS BURNHAMS

cc Mr Scholar
Mr Turnbull
Mr A C S Allan —
Miss Rutter
Mr R I G Allen
Mr Saunders
Miss O'Mara
Mr Pickford
Miss Walker
Miss Evans
Mr Tyrie

AUTUMN STATEMENT: TREASURY PRESS NOTICE

Your aide-memoire left it to GE to prepare the Treasury press notice, if any.

2. I assume that we will not issue a substantial Treasury press notice on the day of the Autumn Statement.

If a skeleton announcement is made by PQ on Thursday 29 October, it will be important that a press notice goes no further than setting out the terms of the answer to the arranged written question - I imagine IDT will arrange for that;

On the day of the Autumn Statement, ^{I expect} the press notice will be confined to a copy of the Chancellor's statement and a reference to the booklet itself - again I assume IDT will organise that.

3. Unless you or IDT (or any others) are unhappy with this, I suggest we work on that basis.

John Gieve

JOHN GIEVE

CONFIDENTIAL

20



FROM: CATHY RYDING
DATE: 22 October 1987

MR M GIBSON

cc Chief Secretary
Sir P Middleton
Mr Monck
Mr Kemp
Mr Scholar
Miss Peirson
Mr Turnbull
Mr S J Davies
Mr McIntyre
Miss O'Mara
Miss Evans
Mr Macpherson

AUTUMN STATEMENT - NATIONAL INSURANCE CONTRIBUTIONS

The Chancellor was grateful for your minute of 21 October and is content with the draft version of Chapter 3 of the Autumn Statement.

CR

CATHY RYDING

CONFIDENTIAL

FROM: M GIBSON

DATE: 21 October 1987

1. MR MCINTYRE ✓
2. CHANCELLOR

cc Chief Secretary
Sir Peter Middleton
Mr Monck
Mr Kemp
Mr Scholar
Miss Peirson
Mr Turnbull
Mr S J Davies
Miss O'Mara
Miss Evans
Mr Macpherson

Jim
21/9

Ch

OK?

AA

OK

AUTUMN STATEMENT - NATIONAL INSURANCE CONTRIBUTIONS

I attach a draft version of Chapter 3 of the Autumn Statement for your approval.

2. This will be virtually the same as last year's chapter. We have made the necessary amendments in manuscript on a copy of last year's chapter, so you can see the changes.

3. There are two points I should draw to your attention:

(1) the section dealing with earnings assumptions on the second page has been changed slightly from last year. There has been some rise in settlements in recent months, which the Industry Act forecast is likely to acknowledge (while being optimistic about the future). We think it better to avoid a complicated discussion of the forecast in this context, so the sentence now reads simply "Figures for settlements are of course lower than these earnings figures in both years".

(2) the table, prepared by the Government Actuary, includes a new line covering the effect from next April of the fall in the contracted-out rebate from 4.1 to 3.8 per cent for employers and from 2.15 to 2 per cent for employees. This was announced by Mr Fowler earlier this year, as the footnote explains. The effect is that contracted out employees will

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lose marginally (up to a maximum 40p per week), with employers losing slightly more (up to a maximum 80p per week). As the final line in the table also shows, however, the burden on employers will be lower as a result of the revised limits in the Autumn Statement. Employees will both gain and lose from the limits changes, depending on their earnings, with the maximum loss 90p a week for those who earn more than the present UEL of £295 per week. All the figures will be given in Mr Moore's Written Answer on the same day as the Autumn Statement and we would expect DHSS to field detailed questions on the rebate (if there are any).

M Gibson

M GIBSON

3 National insurance contributions

3.01 The Secretary of State for Social Services has conducted his annual review of national insurance contributions, as required by the provisions of the Social Security Act 1975. Full details were set out in a statement by the Secretary of State on ~~6 November 1986~~. The main proposals are as follows:

~~6 November 1986~~
3 November 1987

—the Class 1 insurance rates for employers and employees should remain unchanged for ~~1987-88~~.

88-89

—the lower earnings limit should be increased from April 1987 from the present level of ~~£38~~ a week to ~~£39~~ a week in line with the single rate retirement pension.³⁹ ~~41~~

—the upper earnings limit should be increased from ~~£285~~ a week to ~~£295~~ a week.
305

—the earnings limit for the reduced rate brackets should also be increased from ~~£80~~, ~~£95~~ and ~~£140~~ a week to ~~£65~~, ~~£100~~ and ~~£150~~ a week.
65 100 150 70 105 155

—the Treasury supplement should be cut from ~~9~~ per cent of contributions to ~~8~~ per cent.
5 7

This would give the following structure of national insurance contributions:

Weekly earnings	Percentage NIC rate on all earnings	
	Employees	Employers
Below £394 1	(No NICs payable)	
41 £39 to £64 99 69.99	5	5
70 £65 to £99 99 104.99	7	7
105 £100 to £149 99 154.99	9	9
155 £150 to £295 305	9	10-45
Above £295 305	9 on £295 305	10-45

3.02 The necessary orders will be laid shortly with a report by the Government Actuary on the likely effect of the changes on the National Insurance Fund. In accordance with normal practice, the Government Actuary has been provided with working assumptions for use in preparing his report. These assumptions, which are not forecasts or predictions, will be summarised in his report and include the following:

—the number of unemployed (GB, excluding school leavers etc) averages ~~3.1~~ million in ~~1986-87~~ and ~~3.05~~ million in ~~1987-88~~.
2.7 87-88 2.6 88-89

3 National insurance contributions

—the increase in average earnings is expected to decline from about 7½ per cent between tax years 1985–86 and 1986–87 to about 6½ per cent between tax years 1986–87 and 1987–88. Figures for settlements are of course lower than these earnings figures in both years. The earnings figures for 1987–88 reflect the decline in settlements which has already taken place, and the further decline now expected.

The report will also allow for an uprating of benefits in April 1987 on the basis of the 2.1 per cent increase in the RPI over the eight months ending in September 1986, as announced by the Secretary of State on 22 October 1986.

3.03 The estimated effects of the proposed changes are shown in Table 3.1.

Table 3.1 Estimated total payments by employers and employees of national insurance contributions in 1986–87 and 1987–88¹

	Great Britain (£ million)					
	Employers		Employees		Total	
National insurance contributions:						
1986–87	13540	12310	12710	11590	26250	23900
1987–88 ²	14820	13120	13730	12460	28550	25580
Total change	+1280	+810	+1020	+870	+2300	+1680
of which:						
Change in contributions from increased earnings, etc ²	+1170	+960	+870	+850	+2040	+1810
Change in contributions from increase in earnings limits	+220		+110		+330	
	-110	-150	+40	+20	-70	-130

Change in contributions from lower contracted-out rebate³

¹ Figures are rounded to the nearest £10 million. Detailed figures for national insurance contributions will be included in the Government Actuary's report on the draft of the Social Security (Contributions, Re-rating) (No. 2) Order 1986. As in previous years, figures in this table are on a receipts basis excluding self-employed and voluntary contributions. Figures include NHS and Employment Protection Allocation contributions. Employers' contributions are net of deductions in respect of statutory sick pay and, for 1987–88, statutory maternity pay.

² Including population and employment changes.

for 1987–88.

³ As announced by Secretary of State for Social Services on 16 March, 1987.

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Sir P Middleton
Mr F E R Butler
Mr Anson
Mr Scholar
Mr Gieve
Mr R I G Allen
Mr Turnbull
Miss O'Mara
Miss Evans
Mr Kalen
Mrs Burnhams

Treasury Chambers, Parliament Street, SW1P 3AM
01-270 3000

23 October 1987

Robert Culshaw Esq
PS/Secretary of State
Foreign and Commonwealth Office
Downing Street
LONDON SW1A 2AL

Dear Robert,

As the Prime Minister indicated at yesterday's Cabinet, Cabinet will discuss the outcome of the Public Expenditure Survey at its next meeting on 29 October. Assuming all the necessary decisions have been taken, the Autumn Statement will then be made on Tuesday 3 November. The Chancellor hopes that Departments will be ready as usual to issue Press Notices on the same day giving the main features of their programmes, and wherever possible, backing that up with appropriate material on output, rather than emphasising the money spent.

The Chancellor attaches particular importance to ensuring that the texts of Press Notices are agreed with the Treasury in advance to ensure both that the figuring is consistent and that the presentation is in line with the way the Autumn Statement as a whole is put over.

To ensure that the release of Departmental Press Notices is properly co-ordinated with the announcements from the Treasury, I would be grateful if each Department could:

- (i) notify the relevant Treasury Division by close on Monday 26 October whether it intends to issue a Press Notice on the day of the Autumn Statement and whether their Minister intends to hold a Press Conference;
- (ii) on Monday 26 October provide Mrs Burnhams here (270 5179, room 44/1), who will be co-ordinating the exercise, with the name and telephone number of someone in each Department who can be contacted about the arrangements for sending copies to the Treasury;
- (iii) show the Treasury Division concerned a draft by close on Wednesday 28 October and clear with them any subsequent modification;

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- (iv) deliver 100 copies of the agreed Press Notice to Mr N Fray in this office (room 14/2) by 12 noon on Monday 2 November.
- (v) arrange for copies of the Press Notice to be available to Members in the Vote Office and Printed Paper Office when the Chancellor sits down on Tuesday, 3 November.

Although these plans are being made to allow for the Statement to be made on 3 November, this cannot of course be taken for granted. It will depend on the conclusions of Cabinet. For the time being, therefore, no public statement of the likely date of the Statement should be made. I should be grateful if you could ensure that knowledge of the arrangements is confined to those who need to know. If Departments are asked about the date of the Statement, they should say that the public expenditure round has not yet been concluded and that the Autumn Statement will be made as soon as practicable after final agreement has been reached.

I am copying this letter to David Norgrove (No.10), to Private Secretaries of Ministers in charge of Departments, to the Private Secretaries to the Chairmen of the Revenue Departments and to Sir Robert Armstrong (Cabinet Office).

Yours sincerely

Cathy Ryding

CATHY RYDING



PS/chancellor

copy for your information

Mohammed Khan
party x5005.

Business of the House

4.13

The Lord Privy Seal and Leader of the House of Commons (Mr. John Wakeham): With permission, Mr. Speaker, I should like to make a statement about the business for next week.

MONDAY 26 OCTOBER—Opposition Day (1st Allotted Day). Until about seven o'clock there will be a debate entitled "The need for increased control over the possession and use of firearms". Afterwards there will be a debate entitled "The inadequacy of consultation on the Government's education proposals". Both debates will arise on Opposition motions.

Motions on financial assistance and grant schemes for fishing vessels and fish farming. Details will be given in the *Official Report*.

TUESDAY 27 OCTOBER and WEDNESDAY 28 OCTOBER—Debate on a motion to approve the Statement on the Defence Estimates 1987 (Cm. 101).

At the end of Wednesday, motion on EC document relating to radioactivity levels in food and water. Details will be given in the *Official Report*.

THURSDAY 29 OCTOBER—Resumption of the adjourned debate on Second Reading of the Scottish Development Agency Bill.

FRIDAY 30 OCTOBER—Debate on renewable sources of energy, on a motion for the Adjournment of the House.

MONDAY 2 NOVEMBER—Second Reading of the Social Security Bill.

[*Debate on Monday 26 October 1987*

Fishing Vessels (Acquisition and Improvement) (Grants) Scheme 1987 (S.I., 1987, No. 1135)

Fishing Vessels (Financial Assistance) Scheme 1987 (S.I., 1987, No. 1136)

Fish Farming (Financial Assistance) Scheme 1987 (S.I., 1987, No. 1134)

Debate on Wednesday 28 October

Relevant European documents:

7183/87

Radioactive contamination of food, feeding stuffs and drinking water

Relevant Report of European Legislation Committee HC 43-ii (1987-88) para 1]

Mr. Neil Kinnock (Islwyn): I am grateful to the Leader of the House for that statement. However, the House has been led to expect that the Government will arrange a full-scale debate on Scottish economic affairs in the near future. Will he now inform us when that debate will be held because delay in arranging it will encourage the belief in some quarters that the Government's interest in Scotland and in its people is proportionate to their low representation in that country?

In the wake of the recent severe storms in England, Wales and Northern Ireland, and as the Government's response to the immediate and long-term needs of those areas has so far been grossly inadequate, will the Leader of the House arrange for further statements next week from the relevant Secretaries of State? Will he ask them especially to specify the arrangements for providing longer-term revenue and practical support to those stricken areas as the full cost of the damage to communications, hospitals, schools and private property becomes known?

Will the Leader of the House say when we may expect the Chancellor's autumn statement?

Will the right hon. Gentleman arrange for a statement to be made about the Government's attitude to space research? There is deep and justified concern in the scientific and technical community about the Government's lack of foresight in the matter of space research and related issues. Before any final decision is taken in November about our contribution to the European space programme, will the right hon. Gentleman ensure that the House has a chance to register its views?

As the Government's own Social Security Advisory Committee last week urged the Government not to proceed with the social fund as planned, and in view of the huge loss of income that will be inflicted on people such as those who care for the chronically sick at home or on pensioner couples who are disabled, will the Leader of the House arrange for an immediate debate on those proposals so that the Government may further consider whether they really want to inflict greater poverty and insecurity on those in need?

In the light of exchanges in the House yesterday about security in the Commons, and the difficult position in which you, Mr. Speaker, can be placed under the present informal arrangements, will the Leader of the House arrange for a debate so that the House can consider how the security of this palace could be improved by establishing a security clearance procedure for all who work in it, other than those who are elected?

In view of the serious constitutional implications that would arise if the same person were to be appointed Secretary of State for Trade and Industry and chairman of the Conservative party, will the Leader of the House, who, I understand, has some reservations about that, ensure that that issue can be debated in the House in the near future?

Mr. Wakeham: In answer to the last question, the Leader of the Opposition should not believe everything that he reads in the newspapers. I can give him the clear undertaking that I shall not arrange a debate on matters concerning the Prime Minister's position as leader of the Conservative party.

On the other matters that the right hon. Gentleman raised, the right course of action is to complete the Second Reading of the Scottish Development Agency Bill next Thursday. That is an important measure which is designed to enable further assistance to be given to Scotland, but which seemed to meet with some opposition yesterday from Members opposite. We shall see how we get on with that and consider the other matters through the usual channels.

I cannot promise a further statement on the storms, but when my right hon. Friend the Secretary of State for the Environment has further information on the extent of the damage and on the cost to the local authorities, he will have to consider how best to proceed.

On the autumn statement, the Leader of the Opposition is quite right that this is the season of the year in which autumn statements normally come. However, I can give him no more information other than that it is on its way.

On space research, the Government have already decided not to increase our civil space expenditure above the current level of over £100 million a year. They are considering further draft proposals from the European

Mr. Wakeham: I shall certainly see that the Bill is available as early as possible tomorrow morning. It will certainly be published tomorrow.

Mr. Michael Fallon (Darlington): Did the Leader of the House hear the Bishop of Durham on lunch-time radio whining on again about the declining industries in the north-east, and further damaging the image and self-confidence of our region. Is it not high time that either

Mr. Speaker: Order. I did not quite hear what the hon. Gentleman was saying, but I hope that he was not criticising a Member of the other place.

Mr. Fallon: If you ask me to withdraw, Mr. Speaker, I shall do so, of course.

Is it not time that we had a debate on the north-east so that rather than hear its critics whining on again about the region's problems, its elected representatives could draw attention to the strong economic recovery that is being promoted within it by the Government?

Mr. Wakeham: I did not hear the Bishop of Durham on the radio at lunchtime. I was busy thinking about what I would say in response to questions directed to the setting-up of Select Committees. A debate on the north-east is important and I shall ascertain what can be done about that, but not next week.

Mr. Bob Cryer (Bradford, South): Will the Leader of the House arrange for a statement to be made next week on the Settle-Carlisle line? The Leader of the House will be aware that there is an outstanding decision on the retention of the line, which this year is certainly breaking even, even if it is not profitable. It is one of the most successful of British Rail's provincial services and people use it in their many thousands. Surely the 22,000 objectors to closure deserve more than this lingering period during which the Government seem unable to produce a decision. They are looking to the Government to say clearly that the service will be retained, and we could do with such a statement next week.

Mr. Wakeham: I know that the hon. Gentleman is concerned about this issue, he having raised it before, as have some of my hon. Friends. I shall refer the matter to my right hon. Friend the Secretary of State for Transport to see whether an appropriate statement can be made.

Mr. Tony Favell (Stockport): May we have an early debate on the proposed BCal-British Airways merger? The introduction of competition into road transport has brought enormous benefits. A near monopoly of British skies by Lord King, who may be a merry old soul, will not bring cheaper fares to passengers.

Mr. Wakeham: I think that it would be quite improper for the House to debate the issue until the report of the Monopolies and Mergers Commission is received.

Mr. Bruce Grocott (The Wrekin): Given the comments of the hon. Member for Birmingham, Selly Oak (Mr. Beaumont-Dark) about the problems of the Health Service in the west midlands, and bearing in mind that the chairman of the health authority for that area, a Government appointee, has made a statement that the Telford hospital, which is due to open next year, may have to be mothballed in part through lack of funds, is it not high time that we had a debate on the Health Service and the cash crisis that it faces?

Mr. Wakeham: I fully accept that a debate on the Health Service is something which many hon. Members would like, but I cannot promise it for next week.

Mr. James Couchman (Gillingham): Will my right hon. Friend make time to have a debate on the spectrum of the issues that relate to emergencies such as last week's hurricane? Kent suffered the worst of the snow in January and the worst of the winds in October, and it is now said with some cynicism that all we need to complete 1987 is a plague of frogs. If that plague of frogs arrives, doubtless my right hon. Friends will still be talking about the product of a penny rate before a move is made. It seems that the time has come for these issues to be debated. In January I had to ask for a state of emergency to be declared because of the snow. These are serious matters in the south-east, which has been afflicted severely on two occasions and beyond expectations this year.

Mr. Wakeham: My hon. Friend raises a good point. There are lessons to be learnt and experiences to be shared between local authorities in the event of these emergencies, and I think that this would make a good subject for debate at the appropriate time.

Mr. Dennis Skinner (Bolsover): In a week that has seen the biggest crash on the British stock market—22 per cent.—without a statement being made in the House by any spokesperson of the party of popular capitalism, why can the Chancellor of the Exchequer be allowed to flit between BBC and ITV studios throughout two entire days to try to explain that there is plenty of confidence without being called upon to defend the argument at the Dispatch Box? Not too long ago a Chancellor of the Exchequer, faced with such a collapse, would have been expected to answer questions on the subject. Yet the Leader of the House told my right hon. Friend the Leader of the Opposition that he does not even know when the Chancellor of the Exchequer will present the autumn statement. What is happening? Has everyone on the Government Benches gone shy about popular capitalism?

Mr. Wakeham: I told the Leader of the Opposition that I was not in a position to tell him on what date the autumn statement would be made. I did not say that my right hon. Friend the Chancellor of the Exchequer did not know when it would be made. I do not know whether he knows or does not know. I do not believe that it would be helpful or necessary for the House to have a debate on the goings on on the Stock Exchange. As I understand it, the price of shares is about what it was last April.

Mr. Spencer Batiste (Elmet): My right hon. Friend will recall that before the summer recess he was asked on a number of occasions whether there could be a debate on the space industry. Since then there have been speeches that have suggested that policy in this important area is under review. Given the considerable anxiety in the House on the future of this vital industry and the concern that it should not be jeopardised, can my right hon. Friend offer an early debate on the matter, certainly before the important meeting of Ministers in November at the European Space Agency?

Mr. Wakeham: I recognise the importance of the matter, but I do not think that I can add anything to the answers that I have already given.

Mr. John Fraser (Norwood): In view of the answer given by the Prime Minister earlier today, are we to have



COMMONWEALTH FINANCE MINISTERS MEETING

Bridgetown, Barbados.

23-24 September 1987

AD

Phoned through

- 1. Alex.
- 2. C

Peter Sedgwick rang with a couple of suggestions on chapter 1 of the AS.

Para 1.26 - last but one line.

He doesn't like "in the immediate aftermath of the low rate accord". low rate is meant to introduce stability and ~~it~~ hasn't been stable. He wants to leave out this phrase. *Mayer*

Para 1.51 He thinks no one will understand the final sentence. Also the last but one sentence is odd given the fall in interest rates. He wants to leave both out. *I have a view.*

Sedgwick needs comments by lunchtime

CR 26/10



FROM: CATHY RYDING
DATE: 23 October 1987

RS

MR SEDGWICK

cc Sir T Burns

**CHAPTER 1 OF THE AUTUMN STATEMENT:
ECONOMIC PROSPECTS FOR 1988**

The Chancellor was grateful for your minute of 22 October.

- ... 2. I attach a copy of Chapter 1 with the Chancellor's drafting suggestions.
3. The Chancellor has commented that if you are very attached to 1.31, the point can go in in small type as a footnote to table 1.12.

A handwritten signature in cursive script, appearing to be 'CR'.

CATHY RYDING

ECONOMIC PROSPECTS FOR 1988

SUMMARY

1.1 GDP is forecast to grow by 3 per cent in 1988, following growth of 4 per cent this year. ~~RPI inflation is turning out as expected at 4 per cent at the end of this year, and will rise slightly next year.~~ *[Inflation is expected to remain low, and there are good prospects for a continued fall in unemployment.]*

(ass)
Assumptions

1.2 The forecast assumes that fiscal and monetary policies are operated within the framework of the Medium Term Financial Strategy (MTFS). It assumes that ~~the sterling remains~~ *the sterling rate* close to recent levels, and that North Sea oil prices will average \$18 a barrel.

stat 1

The PSBR is expected to be about £1 billion in the current financial year, some £3 billion below the figure set in the Budget. The forecast ~~makes the assumption of a similar PSBR for 1988-89;~~ *the PSBR for next year will, as usual, be set in the Budget.*

actual

Demand and Activity

1.3 The economy has been growing strongly during the past year. GDP growth in 1987 is likely to be about 4 per cent, with manufacturing output growing at over 5 per cent. Domestic demand has continued to grow at much the same rate as in 1986, but with some change in its composition: investment growth has been higher and consumers' expenditure growth lower than in 1986. Non-oil exports have increased strongly. In 1988 GDP is forecast to grow by 3 per cent.

Labour market

1.4 Employment has also risen strongly over the past year, with unemployment falling by 400,000; the ~~fastest rate of~~ *largest annual* decline since the war. There are good prospects for a continued fall.

Inflation

1.5 Inflation is expected to remain low. The annual increase in the retail prices index (RPI) is forecast at 4 per cent in the fourth quarter of 1987, as envisaged at the time of the Budget, and is ~~forecast~~ *expected* to rise temporarily to 4½ per cent in the fourth quarter of 1988. *UNIL* Labour costs have increased very slowly over the past year, ~~as a result of~~ *thanks to* rapid productivity growth, and this pattern is expected to continue in 1988.

World Economy 1.6 GNP in the main industrial countries is forecast to grow by around 2½ per cent in both 1987 and 1988. World trade in manufactures has picked up this year and should grow at just under 5 per cent in 1988, reflecting faster growth of industrial production in the industrial countries. Inflation is expected to remain low, although there has inevitably been some rebound from the very low figures produced by last year's drop in the oil price.

UK trade and current account 1.7 The UK current account is now estimated to have been in deficit by £1 billion in 1986 following the fall in the oil price. So far in 1987 it has been particularly erratic. A current account deficit of £2½ billion is expected this year (about ½ per cent of GDP), in line with the forecast made at Budget time. With the UK expected to continue growing faster than other ^{main} industrial countries for a little while, a current account deficit of £3½ billion (about ½ per cent of GDP) is forecast for 1988.

WORLD ECONOMY

Recent Developments

1.8 The major seven OECD economies are now in their fifth year of expansion. There was some weakening in the second half of 1986 from around 3 per cent a year to just below 2½ per cent, but growth now appears to be strengthening a little.

1.9 The weakness in world growth was largely due to the difficulties of adjusting both to the collapse in oil prices in early 1986 and to 1987 changes in exchange rates. Lower oil prices led oil exporters to cut their imports sharply. Moreover, with many non-oil commodity prices falling to their lowest post-war levels in real terms, other primary producers had to restrain their imports severely. As a result, exports from the industrial countries were depressed, and industrial production rose by 1 per cent in 1986.

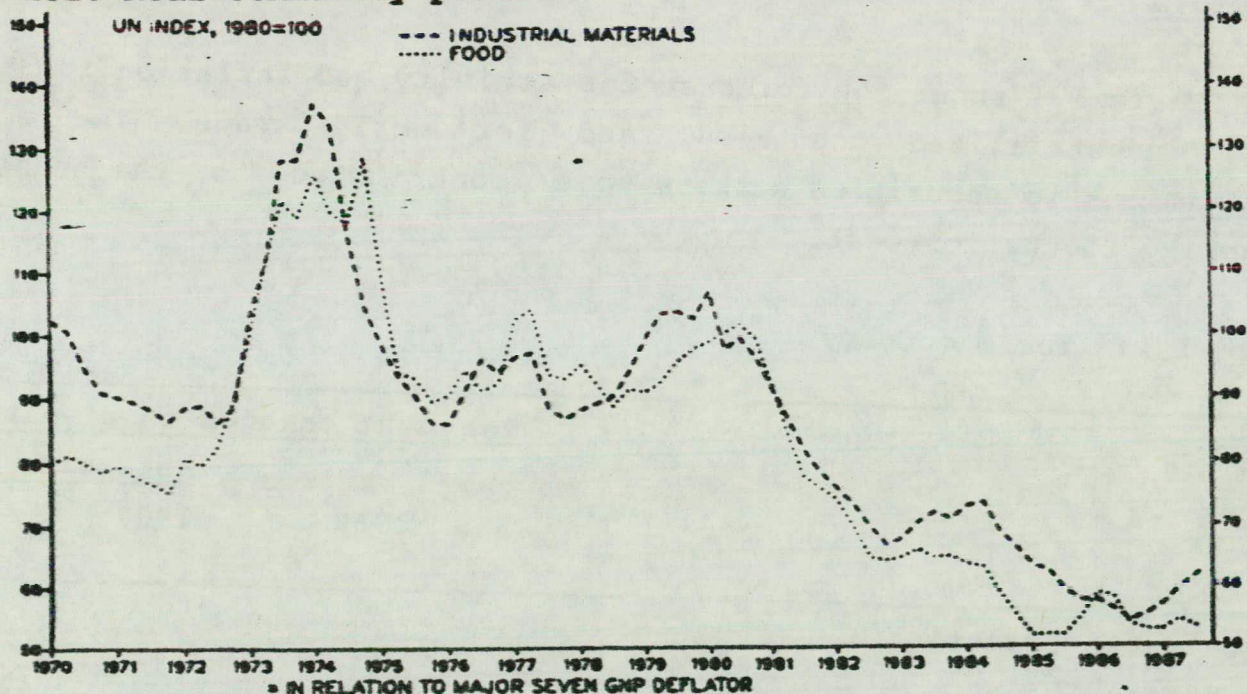
1.10 Domestic demand in the seven major countries grew strongly in 1986, encouraged by substantial terms of trade gains and lower interest rates, though it has slowed more recently. The slowdown was most marked in the

reflecting the effects of the dollar's depreciation and some tightening of policy. In Japan and Germany exports have weakened following the appreciation of their currencies and this also produced some weakness in business investment.

1.11 Helped by the greater exchange rate stability achieved by the Louvre Accord and by some strengthening in ^{import} demand ^{in Japan} for ~~their exports~~ developing countries. Activity in the seven major countries appears to have picked up, ^{recently} By June 1987 aggregate industrial production was 3 per cent higher than a year earlier.

1.12 Consumer price inflation has increased to about 3 per cent as a result of some recovery in oil and commodity prices from the very low levels reached in 1986. There has been no pick up in the growth rate of earnings and domestic costs.

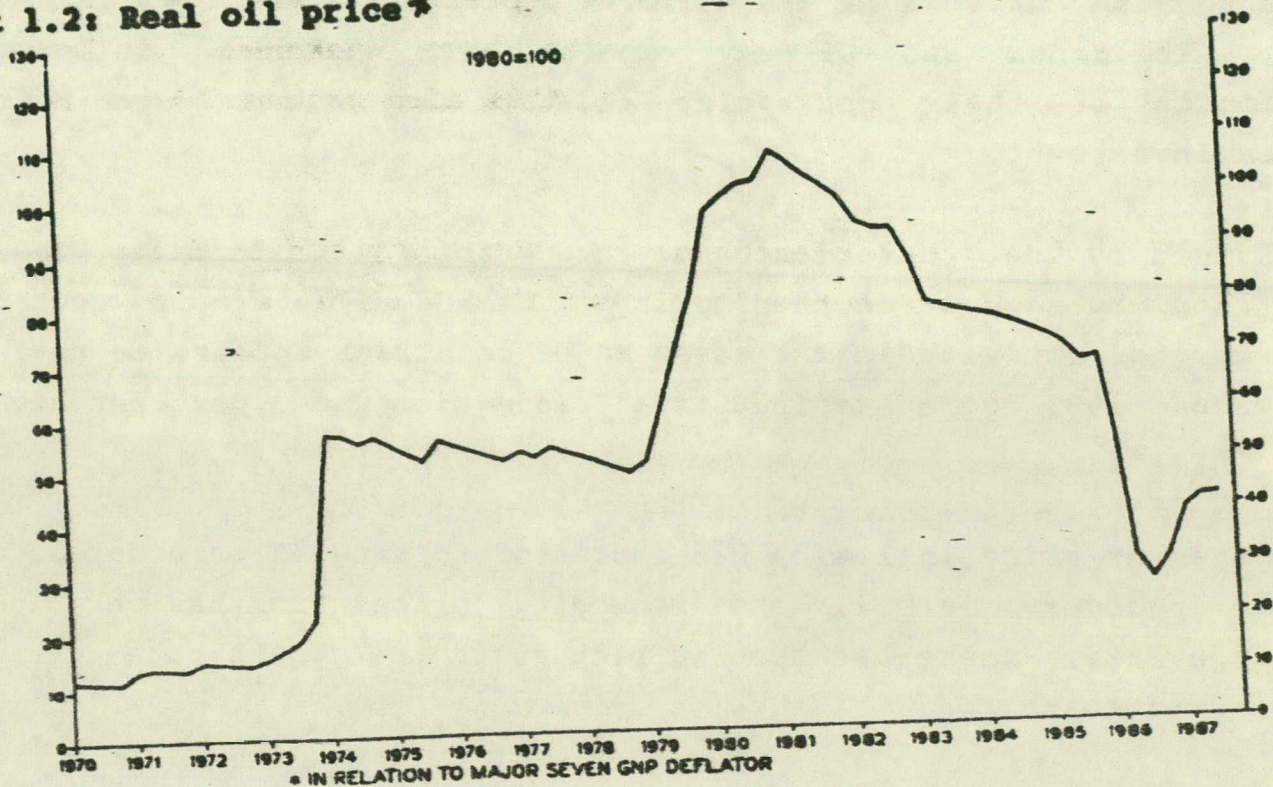
Chart 1.1: Real commodity prices*



1.13 The current account surpluses of Japan and, to a lesser extent, Germany have now started to decline. In the United States, trade volumes are responding to the decline in the dollar, but the current account is taking longer to turn around.

1.14 Oil prices rose to over \$20 per barrel for a short time in the summer before falling back a little to between \$18-19 per barrel as OPEC production expanded. Real non-oil commodity prices have recovered somewhat from the extremely low levels reached in the second half of 1986, but they remain well below their historical average. Food prices are particularly weak.

Chart 1.2: Real oil price*



Prospects

1.15 Table 1.1 shows the forecast for activity and inflation in the major seven industrialised countries, and for world trade. The recent sharp ~~fluctuations~~ ^{falls} in securities markets have contributed to the uncertainties attaching to the forecast.

Table 1.1: World economy

	Per cent changes on a year earlier		
	1986	1987	1988
Major seven countries¹:			
Real GNP	2½	2½	2½
Real domestic demand	3½	2½	2½
Industrial production	1	3	3½
Consumer prices	2	2½	3
World trade at constant prices			
Total imports	4½	3½	4
Trade in manufactures	2	3½	4½
Main developed countries' exports of manufactures weighted by UK market share	1½	2½	3½

¹ US, Japan, Germany, France, UK, Italy and Canada

1.16 The forecast assumes that North Sea oil prices average around \$18 per barrel until the end of 1988. Real non-food commodity prices may continue to increase slightly over the next year or so, especially if industrial production in the major OECD countries grows reasonably strongly, but food prices are forecast to remain weak.

No reduction of

1.17 In the US there is little likelihood of more rapid growth of domestic demand in 1988 as the economy adjusts to its twin deficits, though the probable slowdown in consumers' expenditure could be in part offset by higher investment buoyed by rapid export growth. The recent fiscal package in Japan and the tax cuts planned in Germany should help sustain the growth of their domestic demand.

1.18 Industrial production growth in the seven major countries should increase again in 1988, helped by a continued recovery in their exports.

1.19 World import volumes are likely to rise by about 3½ per cent in 1987. This is somewhat slower than in 1986 when oil trade was very buoyant following the fall in price. Total world trade in manufactures, on the other hand, has strengthened and may grow by just under 4 per cent in 1987. Growth in world trade should be slightly higher in 1988. Imports into non-oil developing countries are expected to grow more strongly, despite the debt problems facing some of these countries, since the export earnings of primary producers will be increased by higher commodity prices. OPEC countries may cease cutting back their imports. Reflecting this change in the geographical distribution of trade, growth in trade in manufactures is expected to increase in 1988. ~~Developed countries' exports of manufactures weighted by UK market shares are forecast to grow more slowly than total world trade in manufactures, as the developed countries continue to lose share to newly industrialised countries.~~

2-PP

TRADE AND THE BALANCE OF PAYMENTS

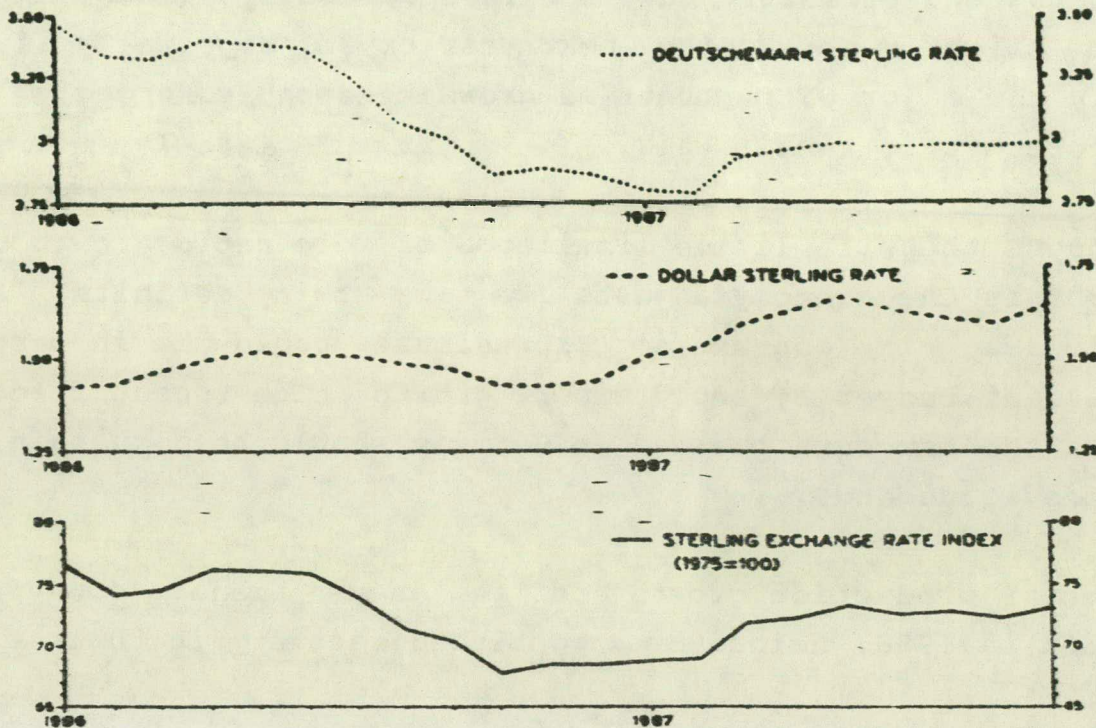
Exchange rates

REU *The Italians have retroactively decided they lose the!*

1.20 Exchange rates between major currencies have remained broadly stable following the Louvre meeting of Finance Ministers ~~[of six]~~ of the leading industrial countries in February. Sterling has reflected this general stability, particularly against the Deutschmark, moving within a narrow range for several months. The forecast assumes that sterling remains ~~close to recent levels~~ *close*

st ~~to recent levels~~ *[scribbles]*

Chart 1.3: Exchange rates —



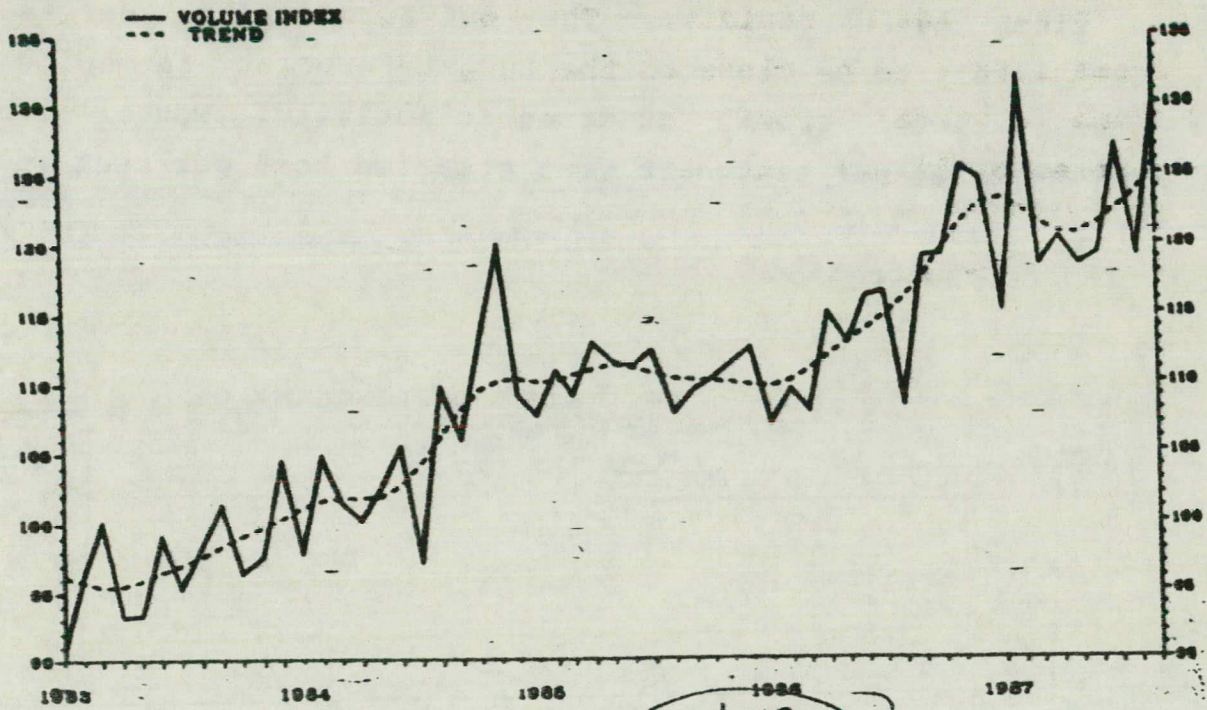
Relative costs and prices

1.21 Unit labour costs in the UK rose broadly in line with those of overseas competitors in the year to mid-1987. This has meant that the large gain in competitiveness in 1986 has been sustained.

Trade volumes (goods other than oil)

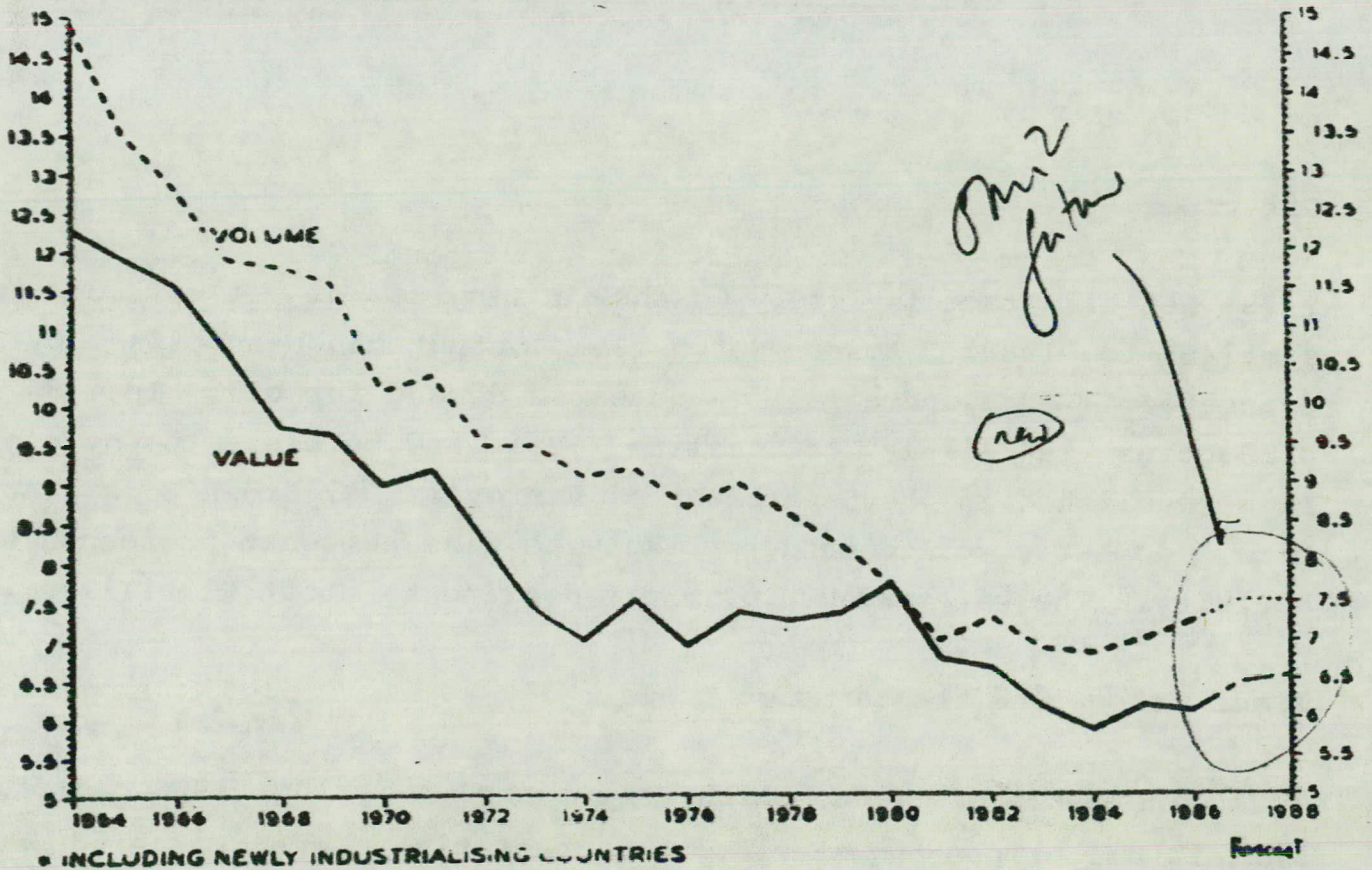
1.22 The volume of UK manufactured exports, which remained flat in the first half of 1987, has been rising again in recent months and this should continue in 1988 as markets for UK exports expand. Total non-oil exports are likely to increase by about 4 per cent in 1988 compared with a projected 7 per cent rise in 1987.

Chart 1.4: Export volumes (goods less oil)



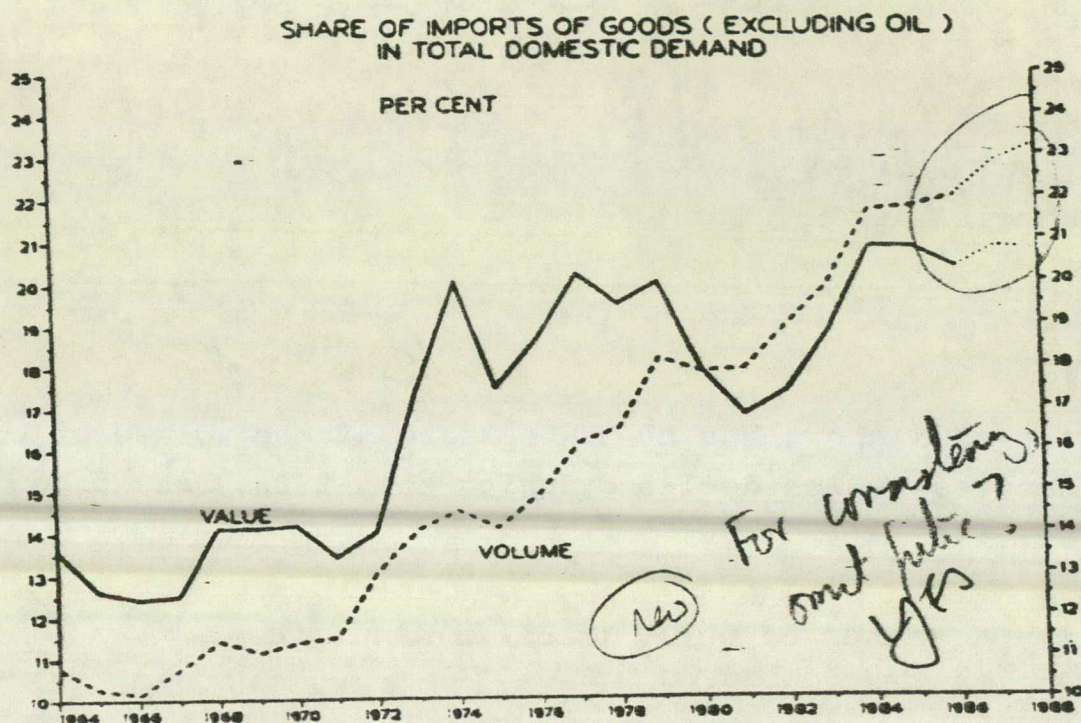
1.23 Chart 1.5 shows how the UK's share of the volume of total world trade in manufactures, which declined during the 1970s, has been broadly steady since 1981.

Chart 1.5: UK shares of world trade in manufactures



1.24 Non-oil imports, which fell sharply in the early part of this year, have since risen again rapidly. The out-turn for the year as a whole, however, seems likely to be close to the Budget forecast in spite of the stronger than expected growth of domestic activity. Non-oil imports are forecast to rise by 5½ per cent next year compared to 8 per cent in 1987.

Chart 1.6: Import penetration



Oil trade

1.25 Net oil trade is likely to show a surplus of £4 billion in 1987 - similar to 1986. Lower North Sea output has been offset by higher oil prices ~~and~~ and a fall in domestic demand for oil. In 1988 North Sea production is likely to decline again and be close to the centre of the range published in the Department of Energy's 1987 Brown Book. At the same time, domestic oil demand is likely to rise somewhat in response to rising activity. The oil trade surplus may decline by about £1 billion in 1988.

Trade prices and the terms of trade

1.26 The terms of trade, which fell sharply during 1986 ~~reflecting~~ ^{new} the fall in oil prices and sterling's depreciation, have recovered ^{as a result of} ~~partly~~ ^{somewhat} during 1987 as a result of higher oil prices, lower food prices and the rise in the

in the immediate aftermath of the Louvre accord.

exchange rate. Little change in the terms of trade from the present level is forecast in 1988.

Table 1.2: Visible trade

Per cent changes on previous year

	All goods			Goods less oil		
	Export volume	Import volume	Terms of trade*	Export volume	Import volume	Terms of trade*
1986	3½	6½	-5½	4	5½	-1
1987 Partly forecast	5½	7	1½	7	8	1
1988 Forecast	3	6	½	4	5½	½

* The ratio of UK export average values to import average values.

Invisibles and overseas assets

1.27 The substantial surplus on ~~invisibles~~ seems likely to be about the same in 1987 as in 1986. The surplus on services should recover from last year's fall which was attributable partly to a decline in the number of tourists visiting the UK. Net earnings from interest, profits and dividends are expected to be higher despite some apparent narrowing of margins on banking business. These improvements should broadly offset an increase in the deficit on transfers, largely reflecting increased government contributions to the European Community. The invisibles surplus should increase again in 1988 as a result of a higher net surplus from interest, profits and dividends.

1.28 The value of the stock of UK net overseas assets, which rose by £37 billion to £114 billion by the end of 1986, has been affected during 1987 on both sides of the account by movements in financial markets in the UK and overseas, as well as by exchange rate changes, but the net position has probably changed little compared with the end of 1986.

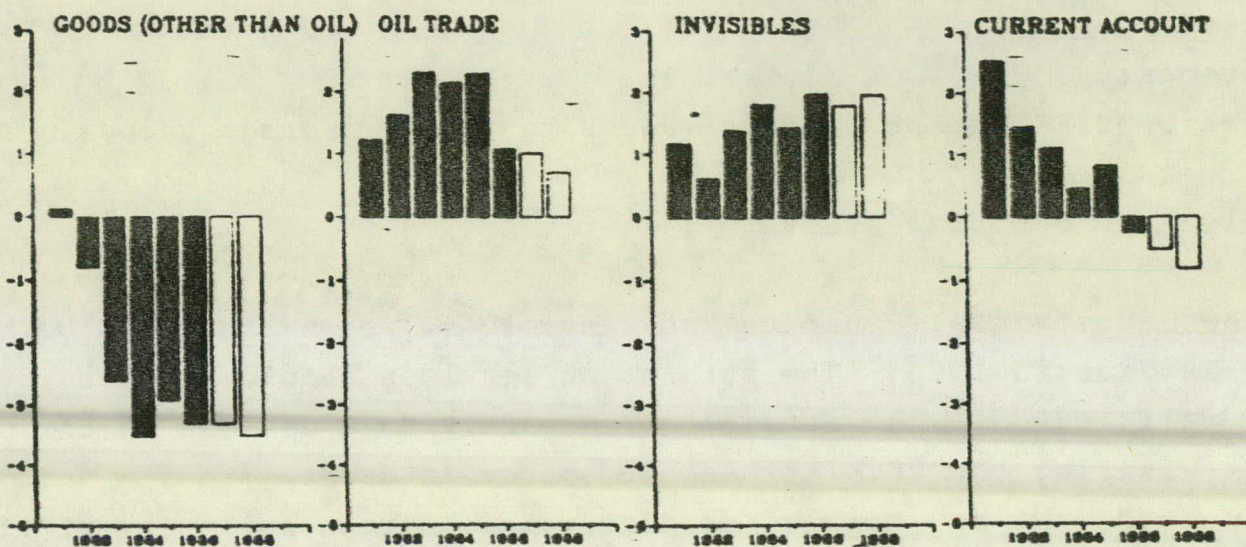
Table 1.3: Current account

£ billion

	Non oil goods		Oil	Invisibles	Current balance
	Manufactures	Other			
1986	-5½	-7	4	7½	-1
1987 Partly forecast	-7½	-6½	4	7½	-2½ ✓
1988 Forecast	-9	-6	3	8½	-3½ ✓

1.29 The current account was in deficit by £1½ billion in the third quarter of this year after a surplus of £½ billion in the first half of the year. The forecast for the year as a whole is for a deficit of £2½ billion, in line with the projection made at the time of the Budget. This is equivalent to about ½ per cent of GDP. The forecast for 1988 is for a slightly higher deficit of £3½ billion, reflecting the fall in the oil surplus.

Chart 1.7: The current account of the balance of payments (surpluses and deficits as a per cent of GDP)



DEMAND AND ACTIVITY

1.30 The UK economy has been growing steadily at ^{around} ~~close to~~ 3 per cent a year on average since early 1981, with only minor fluctuations ~~in the rate of expansion.~~ ~~During 1984 underlying growth was a little faster than this 3 per cent average, while the period from early 1985 to 1986 saw growth rather below average. Since early 1986 economic activity has quickened again, and grew by close to 4 per cent over the year to the first half of 1987, growth has been above this average rate, at ~~close to~~ ^{around} 4 per cent.~~

1.31 Discrepancies in the national accounts mean that it is not possible fully to explain recent growth in output in terms of changes in the components of final expenditure. While the output and income base estimates of GDP suggest growth of just over 4 per cent over the year to the first half of 1987, the expenditure-based estimate of GDP shows about 2½ per cent growth. As the output-based estimate is the most reliable indicator of

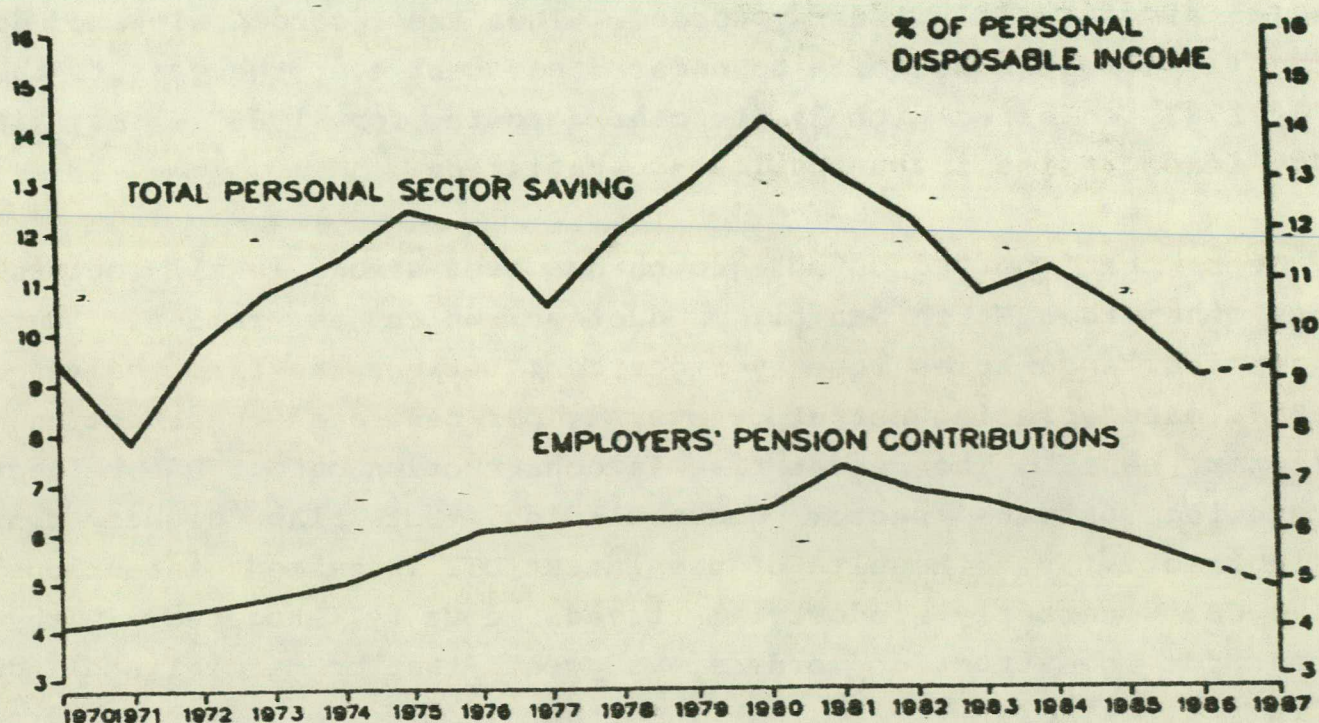
short-term GDP movements, it seems clear that some components of expenditure are being significantly under-recorded. Thus the recorded slowing down in growth in domestic demand - to under 3 per cent over the year to the first half of 1987, compared with 3½ per cent growth for 1986 - may in part reflect inaccuracies in the published statistics.]

1.32 Over that period output growth has been strong in all sectors of the economy other than North Sea oil production, which has fallen. Output of the service industries rose by 5 per cent between the first halves of 1986 and 1987, manufacturing output by over 4½ per cent and construction output by 7½ per cent. The recent rise in construction output has reflected not only growing private sector housebuilding, but also higher commercial building activity. Results of the latest DTI investment intentions survey and the CBI quarterly industrial trends enquiry, together with recent figures for construction orders, suggest that commercial and industrial building is likely to be an important source of further growth in construction output over the next year or so.

Personal sector expenditure

1.33 Consumers' expenditure is now estimated to have increased by 5½ per cent in 1986, substantially more than growth in real personal disposable income. The personal savings ratio fell by about 1½ percentage points between 1985 and 1986, bringing it back to around the average level of the late 1960s and early 1970s. There are at least two major reasons why the savings ratio has fallen in recent years. First, the decline in inflation has reduced the extent to which households need to save simply to make good the erosion of past savings. Secondly, employers' contributions to pension funds have been falling relative to personal disposable income in recent years as companies have reacted to the surpluses that many funds have been showing: these contributions are treated in the national accounts as part of personal income and saving. This fall is unlikely to have had a large effect on consumers' expenditure and hence will have shown up as a fall in the recorded personal savings ratio. Chart 1.8 shows the savings ratio and the share of employers' contributions to pension funds in personal disposable income.

Chart 1.8: Personal saving



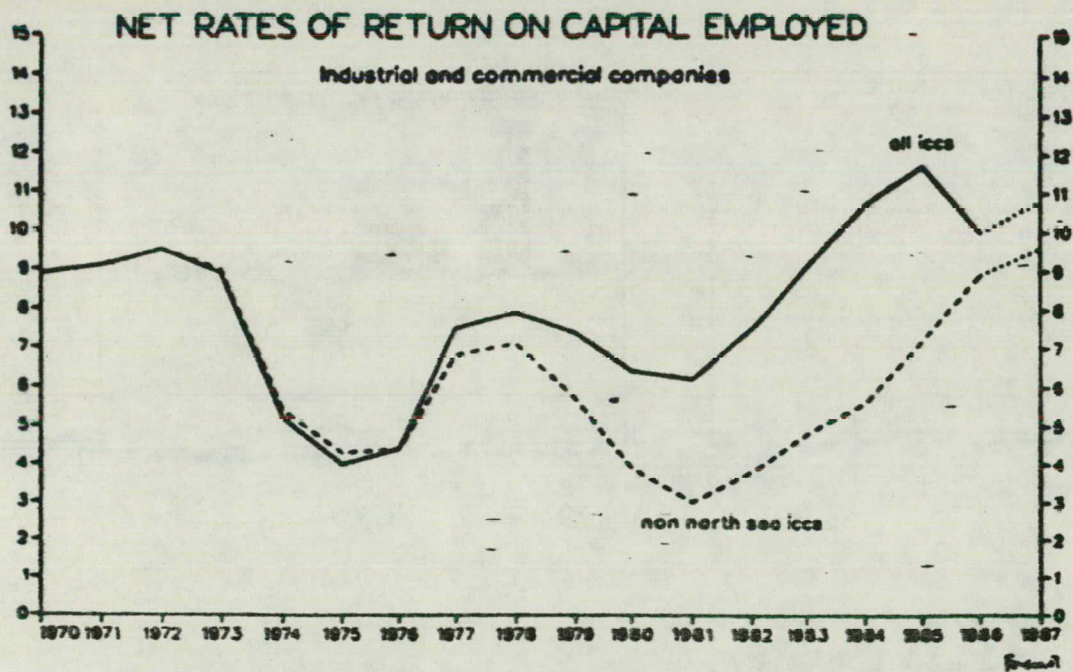
1.34 For 1987 as a whole consumer spending may rise by about 5 per cent similar to the rise in real personal disposable income. In 1988 consumer spending may grow by about 4½ per cent, with little change in the saving ratio.

1.35 The housing market remains very buoyant. Although private housing starts have fallen back from their high first quarter levels, for the first eight months of 1987 as a whole they were 7 per cent higher than the year before, while private completions were 8½ per cent higher. With investment in improvements rising fast, private housing investment in 1987 as a whole may record an increase only a little below the 12 per cent rise seen in 1986. Housing investment is expected to rise further in 1988.

Company incomes and expenditure

1.36 The rate of return of non-North Sea industrial and commercial companies (ICCs) rose sharply again last year, and was back almost to the level recorded in 1973; while the rate of return of manufacturing companies was more than 3½ times the level recorded in 1981. ~~The~~ sharp fall in North Sea companies' profits brought the net real rate of return earned by a ICCs in 1986 to some 10 per cent, below net earnings in 1985. But North Sea profitability appears to have improved this year as a result of the partial recovery in the oil price while the rate of return of non-North Sea companies has continued to rise, helped by strong growth in productivity.

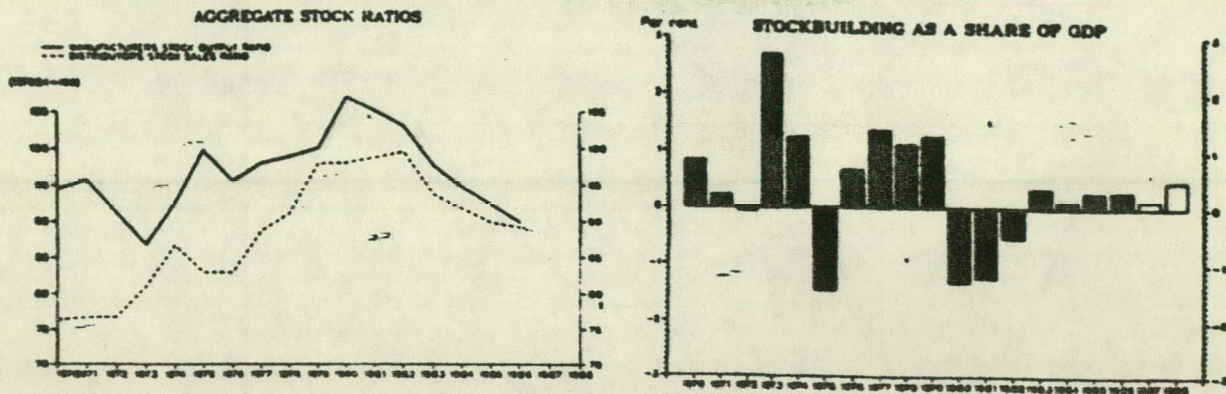
Chart 1.9: Companies rate of return



1.37 Non-North Sea business investment has recovered strongly in the first half of 1987. This follows a period of weakness in 1986, caused by bringing forward of capital spending into 1985 ahead of the final stage of the changes in capital allowances announced in the 1984 Budget. Manufacturing investment, including assets leased from finance lessors, rose some 7 per cent between the second half of 1986 and the first half of 1987. The projections of the DTI's June investment intentions survey (4 per cent growth in manufacturing investment in 1987 and 8 per cent growth in investment on average in all industries covered) now seem likely to be exceeded. The recent performance of output and profitability suggest that manufacturing investment could well accelerate next year. North Sea investment seems likely to fall again this year, to less than two thirds of the 1984 level, but may change little further next year.

1.38 Stocks fell in the first half of 1987. Given the sharp rise in sales, there may have been some involuntary element in the fall in manufacturing stocks. The full effect of the abolition of stock relief in the 1984 Budget may now have largely fed through, and responses to recent CBI enquiries suggest that a more positive trend in stockbuilding is now in prospect. Thus while stock output ratios are expected to fall further over the second half of 1987 and in 1988, the absolute level of stocks is likely to rise. Stockbuilding is forecast to make a small positive contribution to growth next year but to remain on a modest scale compared with many years in the 1960s and 1970s (see Chart 1.10).

Chart 1.10: Stockbuilding



Prospects for demand and activity

1.39 Growth in 1987 is expected to be around 4 per cent, but in 1988 to fall back closer to the average rate recorded since 1981. (See table 1.4). The slower growth reflects a fall in North Sea oil production and therefore net oil exports, and also a ~~more negative~~ ^{smaller} contribution ^{from} non-oil ^{exports} ~~trade~~ next year. Growth in 1987 and 1988 cannot yet, however, be fully explained in terms of expenditure because of the large discrepancy between the expenditure estimate of GDP and the average estimate in the first half of 1987.

1.40 North Sea output fell by some 2 per cent between the first halves of 1986 and 1987 and is expected to decline further in 1988. In both 1987 and 1988 declining output in the North Sea may reduce GDP growth by around $\frac{1}{2}$ per cent. Manufacturing output is forecast to rise rather faster than total non North Sea GDP in both 1987 and 1988.

Table 1.4: Domestic demand and GDP

	<u>Per cent changes on a year earlier</u>		
	<u>Forecasts</u>		
	<u>1986</u>	<u>1987</u>	<u>1988</u>
Domestic demand	4	4	4
Exports of goods and services ¹	3 (3½)	5½ (6½)	2½ (3½)
Imports of goods and services ¹	6 (5½)	6½ (7)	5½ (5)
Domestic production: GDP ^{1, 2}	3 (3)	4 (4½)	3 (3½)
Manufacturing production	1	5	4

¹ Non-oil shown in brackets

² Average measure

1k
See way into para 1.41

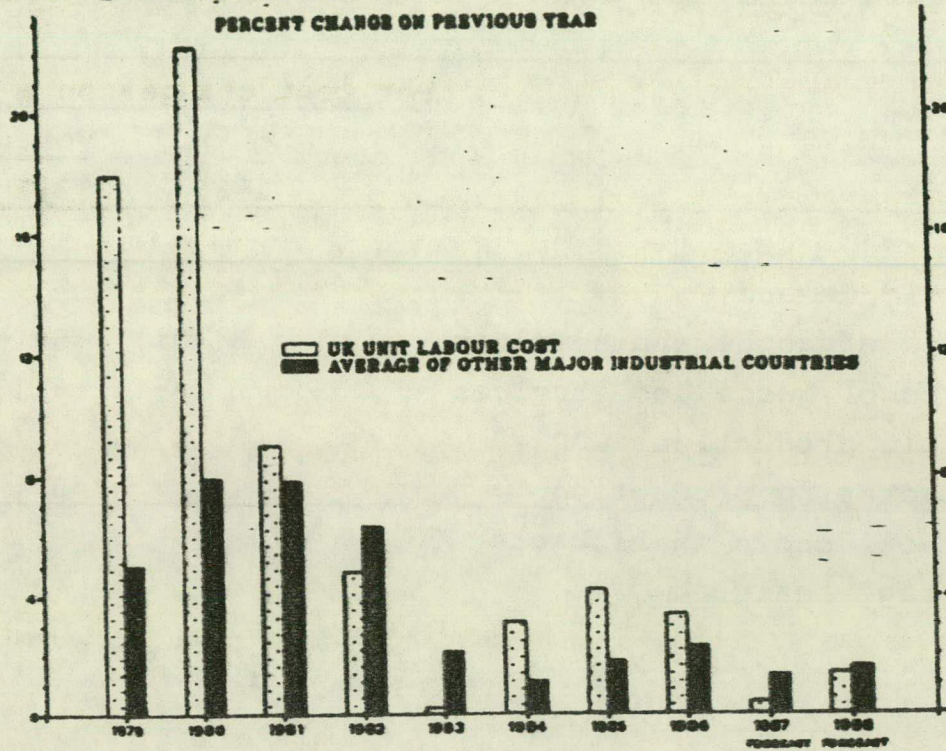
INFLATION

1.41 As forecast at the time of the Budget, the annual rate of inflation as measured by the RPI rose slightly during the summer, reflecting the profile of mortgage rates and petrol prices in 1986. (The national accounts measure of consumer prices has been showing a markedly lower rate of inflation than the RPI: it rose by under 2½ per cent over the year to the second quarter of 1987.) ~~(Retail price inflation)~~ is likely to average 4 per cent in the fourth quarter of 1987, in line with the Budget forecast. Producer output price inflation has been a little higher this year than forecast at Budget time, and the rate of increase of costs of materials and fuel has been rather faster than expected.

1.42 The underlying annual rate of increase in average earnings has risen slightly from 7½ per cent at the start of the year to 7½ per cent in recent months. This is more than accounted for by a rise in overtime payments. Adjusted for overtime hours the underlying growth in average earnings has actually fallen over the last year, reflecting a significant fall in the level of pay settlements during the second half of 1986. However, there are signs that this downward trend in pay settlements has to some extent been reversed over recent months.

1.43 Growth in unit labour costs has been kept down by the rapid growth of productivity and by relatively slow growth in non-wage labour costs. Indeed, unit labour costs in manufacturing may have hardly risen at all between 1986 and 1987. For the first time since 1983, unit labour costs in manufacturing in the other major industrial countries have on average risen faster than in ^{the} UK.

Chart 1.11: Unit labour costs



Prospects

1.44 The very low growth in costs over the last two years has not been fully reflected in producer output prices. With the benefit of substantial gains in competitiveness relative to producers overseas and fast growth in demand, UK manufacturing industry has experienced large increases in profit margins. Profit margins may continue to rise, if a little more slowly than in recent years. Thus in spite of slightly faster growth in ^{total unit} costs, producer output prices are forecast to rise next year by about the same amount as this year and last. (See table 1.5).

Table 1.5: Costs in manufacturing

	Per cent changes on a year earlier			
	Unit labour costs	Cost of materials and fuel ¹	Estimated total unit costs ²	Output prices ¹
1985	4	4	4	6½
1986	3½	-11	- ½	4½
1987 Partly forecast	½	5½	1½	4½
1988 Forecast	1½	3	2	4½

¹ Producer prices excluding food, drink and tobacco

² Including costs of bought in services

1.45 Retail price inflation is expected to fall below 4 per cent by the end of the fourth quarter of 1987, but given the conventional assumption of a full revalorisation of specific duties in the 1988 Budget, compared with the standstill in the 1987 Budget, and the need for higher electricity prices to finance the industry's investment programme there is likely to be a temporary rise in the annual rate of increase in the RPI after the first quarter of 1988. In the light of this, the forecast is for the RPI to increase by 4½ per cent over the year to the fourth quarter of 1988.

Table 1.6: Retail prices index

	Weight in 1987	Per cent changes on a year earlier		
		Forecasts		
		1986Q4	1987Q4	1988Q4
Food	16½	3½	3½	3
Nationalised industries ¹	6	3½	2½	6½
Housing	15	7	7½	8½
Other	62½	2½	3½	4½
Total	100	3½	4	4½

¹ Includes water

1.46 The GDP deflator measures the price of domestic value added - principally unit labour costs and profits per unit of output - and excludes import prices. The GDP deflator at market prices is forecast to rise by 4½ per cent in the current financial year, just below the Budget forecast, following an increase of 3 per cent last year. The higher rate of increase this year is more than accounted for by a recovery in North Sea profits following their fall of over 50 per cent in 1986-87. The GDP deflator is now forecast to rise by 4½ per cent in 1988-89.

PRODUCTIVITY AND THE LABOUR MARKET

1.47 The growth in the employed labour force in Great Britain has been gathering pace over the last year: in the twelve months to June 1987 it is estimated to have risen by 372,000. Since 1983, there has been an increase of around 1,350,000 in the number of jobs. The strong growth in manufacturing and construction output this year has been reflected in particular in a rise in male employees: the 86,000 rise in the six months to June was the largest half yearly rise since the first half of 1973.

Table 1.7: Employment

Thousands, change in GB seasonally adjusted

	Employees in Employment		Self-employed	HM Forces	Employed labour force
	Male	Female			
June 1984 to June 1985	+82	+191	+115	0	+387
June 1985 to June 1986	-56	+151	+ 17	-4	+108
June 1986 to June 1987	+72	+200	+102*	-3	+372

* Figures for self-employment over the last year is a projection based on self-employment growth over the previous five years.

1.48 Productivity has been growing strongly, with manufacturing productivity now estimated to have risen by 4 per cent a year on average since 1979. ~~Underlying~~ ^{any} ~~growth~~ ^{the} ~~in~~ ^{rate} ~~labour~~ ^{of} ~~productivity~~ ^{the} ~~now~~ ^{1960s} ~~appears~~ ³ ~~to~~ ~~be~~ ~~as~~ ~~high~~ ~~as~~ ~~the~~ ~~rate~~ ~~experienced~~ ~~in~~ ~~the~~ ~~1960s~~. This has been accompanied recently by a substantial improvement in capital productivity. Non-manufacturing output per full time equivalent has risen by about 1½ per cent a year since 1979, and by about 2½ per cent a year since 1983. Output per head has grown less than this as result of the large rise in part-time employment.

Table 1.8: Output per head of the employed labour force

	Annual averages, per cent change		
	1964-73	1973-79	1979-87
Manufacturing	3½	½	4
Non manufacturing ^{1, 2}	3	½ (½)	1½ (1½)
Whole economy ²	2½	1½ (1½)	2 (2½)
Non-North Sea economy ²	2½	½ (½)	1½ (2)

¹ Excludes public services and North Sea oil and gas extraction

² Figures for output per full time equivalent in brackets

Unemployment

1.49 Since June 1986 seasonally adjusted adult unemployment has fallen for sixteen months in succession, by some 437,000 in total; the number of unemployed school leavers has also fallen, by some 48,000 over the last

year. The greater part of the improved trend in unemployment is attributable to the strong growth of output and employment this year. The remainder is due to various government measures to provide training or work experience for the unemployed, or to help them to find jobs. The encouraging prospects for the UK economy over the next year mean that a continued fall in unemployment is likely. The main danger to the chances of further progress in reducing unemployment is of pay settlements being too high.

Financial developments

1.50 The sterling exchange rate, as already noted, has been broadly stable over the past eight months, following the conclusion of the Louvre agreement. During that time there has been a substantial inflow into the reserves amounting to some £9 billion. Short-term interest rates ~~remained in the summer, and~~ remain historically high in real terms. Long-term rates throughout the world, which fell in the early part of the year, were edging up again until the stock market fall in October. In the UK, unlike the US and most other countries, the yield curve is flat.

1.51 The year-on-year growth of M0 has been somewhat above the midpoint of its 2-6 per cent target range in recent months, in part reflecting earlier falls in interest rates. M0 is expected to continue to grow quite briskly in the immediate future before slowing down ^{again.} ~~as a result of the rise in interest rates in August and the recent sharp fall in the stock market.~~

1.52 Broad money has continued to rise rapidly. This has reflected at least in part increased deposits by companies and financial institutions. The strong growth of broad money, which has been evident in recent years, is to a ^{considerable} ~~large~~ extent the consequence of financial innovation and liberalisation. On the balance of evidence, monetary conditions remain firm.

Fiscal developments

1.53 Tables 1.09 to 1.11 show both the Budget projections and latest forecasts for general government expenditure and receipts and public sector borrowing in 1987-88. They show also the 1986-87 outturn. The PSBR in 1986-87 was £3½ billion, nearly £½ billion lower than estimated in the 1987 FSBR. Lower central government borrowing, more than accounted for by higher

than expected tax revenues, was responsible for about two-thirds downward revision, with the remaining one-third due to lower than expected local authority borrowing.

1.54 In the first six months of 1987-88 the PSBR was £1½ billion. Excluding privatisation proceeds, borrowing was about £1½ billion lower than in the first half of 1986-87. The revised forecast for 1987-88 as a whole is a PSBR of £1 billion, about £3 billion lower than forecast in the FSBR. *This is mainly due to a downward revision in the receipts side and one fifth on the expenditure side. I think this will be a sharp fall in the Capital tax side. AA*

1.55 Table 1.09 shows the relationship between the public expenditure planning total and general government expenditure. The outturn for public expenditure planning total is expected to be £1 billion lower than was forecast in the FSBR. This is largely accounted for by higher capital receipts (by) local authorities and New Towns. Excluding privatisation proceeds, general government expenditure is now projected to increase 5 per cent in 1987-88, a little less than the increase in 1986-87.

Table 1.09: General Government Expenditure

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	£ billion		
	1986-87 Outturn	1987-88 Budget Forecast	Latest Forecast
Public expenditure planning total	139.4	148.6	147.6
Interest payments	17.4	17.9	17.8
Less public corporations' market and overseas borrowing	-1.5	-0.8	-0.7
Other adjustments	6.9	6.2	6.7
General government expenditure	165.1	173.5	172.8
of which Privatisation proceeds	-4.4	-5.0	-5.0

1.56 Table 1.10 shows the forecast for general government receipts. forecast of tax and national insurance revenues has been increased by over £2½ billion since the Budget. The forecast of on-shore corporate tax, including ACT, is about £½ billion higher, mainly reflecting up revisions to profits estimates for 1986 in the recent Blue Book and, in case of ACT, a higher level of dividend payments so far in 1987. The up revision of £½ billion to North Sea revenues is more than accounted for

the higher dollar oil price than was assumed at Budget time. The forecasts of personal income tax, VAT and national insurance contributions are also each about £½ billion higher than in the PSBR. General government receipts in total are now forecast to rise by nearly 7 per cent in 1987-88, following an increase of 5½ per cent in 1986-87 (when North Sea revenues more than halved).

Table 1.10: General Government Receipts

	£ billion		
	1986-87 Outturn	1987-88 Budget Forecast	Latest Forecast
Taxes on income, expenditure and capital	119.6	127.8	130.1
National insurance and other contributions	26.7	28.5	28.9
Interest and other receipts	13.3	12.6	12.3
Accruals and adjustment	0.5	0.0	-0.2
Total receipts	160.2	168.8	171.1
of which North Sea revenues	4.8	3.9	4.5

1.57 Table 1.11 shows the old and new forecasts for borrowing. The PSBR forecast is still subject to a great degree of uncertainty: the average error on PSBR forecasts for the current financial year made in the autumn is ½ per cent of GDP, or £2½ billion. But on the basis of this forecast, the PSBR, both including and excluding privatisation proceeds, will be lower as a proportion of money GDP than in any year since 1970-71.

Table 1.11: Public Sector Borrowing

	£ billion		
	1986-87 Outturn	1987-88 Budget Forecast	Latest Forecast
General government expenditure	165.1	173.5	172.8
General government receipts	160.2	168.8	171.1
General government borrowing requirement	4.9	4.7	1.7
Public corporations' market and overseas borrowing	-1.5	-0.8	-0.7
PSBR	3.4	3.9	1.0
PSBR as per cent of GDP	1	1	1
Memorandum item:-			
PSBR excluding privatisation proceeds	7.9	8.9	6.0
As per cent of GDP	2	2	1½

Table 1.12: Economic prospects: summary

	Forecast		Average errors from past forecasts ¹
	percent changes		
	1986 to 1987	1987 to 1988	
A Output and expenditure at constant 1980 prices			
Domestic demand			
of which:			
Consumers' expenditure	4	4	1
General government consumption	5	4½	1½
Fixed investment	1	1	1
Stockbuilding (as per cent of level of GDP)	5½	4½	2½
	0	½	½
Exports of goods and services	5½	2½	2½
Imports of goods and services	6½	5½	2½
Gross domestic product: total	4	3	½
manufacturing	5	4	2½
Inflation			
Retail prices index		per cent changes	
1986Q4 to 1987Q4		4	
1987Q4 to 1988Q4		-4½	2
Deflator for GDP at market prices		per cent changes on a year earlier	
Financial year 1987-88		4½	
Financial year 1988-89		4½	2
Money GDP at market prices		£ billion ²	
Financial year 1987-88		419 (8½)	
Financial year 1988-89		452 (7½)	1½
Balance of payments on current account			
1987		-2½	
1988		-3½	3

¹ The errors relate to the average differences (on either side of the central figure) between forecast and outturn; the errors given for constant price output and expenditure are relevant to the forecast for next calendar or financial year. The method of calculating these errors has been explained in earlier publications and Government forecasts (see Economic Progress Report June 1981). The calculations of average errors are based on forecasts made between 1975 and 1985.

² Per cent change on previous financial year in brackets

TABLE 1.13 CONSTANT PRICE FORECASTS OF EXPENDITURE, IMPORTS AND GROSS DOMESTIC PRODUCT

£ billion at 1980 prices, seasonally adjusted

	Consumers' expenditure	General government consumption	Total fixed investment	Exports of goods and services	Change in stocks	Total final expenditure	Less Imports of goods & services	Less Adjustment to factor cost	Plus Statistical adjustment	Gross domestic product at factor cost	GDP in 1980=100
1982	138.4	49.6	39.5	63.1	-1.0	289.7	59.2	30.6	0.9	200.8	100.0
1983	144.0	50.6	41.6	64.4	0.7	301.2	62.7	31.6	0.5	207.4	103.0
1984	147.1	51.0	45.0	68.9	0.3	312.2	68.8	32.8	2.0	212.7	106.0
1985	152.5	50.9	46.4	72.8	0.6	323.3	70.7	33.9	1.7	220.4	110.0
1986	161.3	51.4	46.5	75.1	0.7	335.0	75.1	35.4	2.7	227.1	113.0
1987	169.1	51.8	49.0	79.2	0.3	349.4	80.0	37.1	4.3	236.7	118.0
1988	176.6	52.4	51.2	81.2	1.1	362.6	84.5	38.5	4.5	244.1	122.0
1986 H1	79.6	25.7	22.9	36.6	0.4	165.2	35.9	17.4	0.8	112.7	112.0
1986 H2	81.6	25.7	23.7	38.5	0.3	169.8	39.2	18.0	1.9	114.5	114.0
1987 H1	83.0	25.6	23.9	39.0	-0.3	171.3	38.3	18.3	2.2	116.9	117.0
1987 H2	86.2	26.2	25.1	40.1	0.6	178.1	41.7	18.8	2.2	119.8	120.0
1988 H1	87.6	26.2	25.3	40.2	0.5	180.0	41.7	19.1	2.2	121.3	121.0
1988 H2	89.0	26.2	25.9	41.0	0.6	182.7	42.7	19.4	2.3	122.8	123.0
Per cent changes											
1985 to 1986	6	1	½	3	-	3½	6	4½	-	3	3
1986 to 1987	5	1	5½	5½	-	4½	6½	4½	-	4	4
1987 to 1988	4½	1	4½	2½	-	4	5½	4	-	3	3

ECONOMIC PROSPECTS FOR 1988

SUMMARY

1.1 GDP is forecast to grow by 3 per cent in 1988, following growth of 4 per cent this year. ~~[RPI inflation is turning out as expected at 4 per cent at the end of this year, and will rise slightly next year.]~~ *(Inflation is expected to remain low, and there are good prospects for a continued fall in unemployment.)*

(new)
Assumptions

1.2 The forecast assumes that fiscal and monetary policies are operated within the framework of the Medium Term Financial Strategy (MTFS). It assumes that ~~sterling remains close to recent levels, and that North Sea oil prices will average \$18 a barrel.~~ *the exchange rate*

actual The PSBR is expected to be about £1 billion in the current financial year, some £3 billion below the figure set in the Budget. The forecast ~~makes the stylised assumption of a similar PSBR for 1988-89;~~ *the PSBR for that year will, as usual, be set in the Budget.* *(new)*

Demand and Activity

1.3 The economy has been growing strongly during the past year. GDP growth in 1987 is likely to be about 4 per cent, with manufacturing output growing at over 5 per cent. Domestic demand has continued to grow at much the same rate as in 1986, but with some change in its composition: investment growth has been higher and consumers' expenditure growth lower than in 1986. Non-oil exports have increased strongly. In 1988 GDP is forecast to grow by 3 per cent.

Labour market

1.4 Employment has also risen strongly over the past year, with unemployment falling by 400,000; the ~~fastest rate of~~ *largest annual* decline since the war. There are good prospects for a continued fall.

Inflation

1.5 Inflation is expected to remain low. The annual increase in the retail prices index (RPI) is forecast at 4 per cent in the fourth quarter of 1987, as envisaged at the time of the Budget, and is ~~forecast~~ *expected* to rise temporarily to 4½ per cent in the fourth quarter of 1988. *unit?* Labour costs have increased very slowly over the past year, *thanks to* ~~as a result of~~ rapid productivity growth, and this pattern is expected to continue in 1988.

World Economy 1.6 GNP in the main industrial countries is forecast to grow by around 2½ per cent in both 1987 and 1988. World trade in manufactures has picked up this year and should grow at just under 5 per cent in 1988, reflecting faster growth of industrial production in the industrial countries. Inflation is expected to remain low, although there has inevitably been some rebound from the very low figures produced by last year's drop in the oil price.

UK trade and current account 1.7 The UK current account is now estimated to have been in deficit by £1 billion in 1986 following the fall in the oil price. So far in 1987 it has been particularly erratic. A current account deficit of £2½ billion is expected this year (about ½ per cent of GDP), in line with the forecast made at Budget time. With the UK expected to continue growing faster than other ^{main} ~~major~~ industrial countries for a little while, a current account deficit of £3½ billion (about ¾ per cent of GDP) is forecast for 1988.

WORLD ECONOMY

Recent Developments

1.8 The major seven OECD economies are now in their fifth year of expansion. There was some weakening in the second half of 1986 from around 3 per cent a year to just below 2½ per cent, but growth now appears to be strengthening a little.

1.9 The weakness in world growth was largely due to the difficulties of adjusting both to the collapse in oil prices in early 1986 and to large changes in exchange rates. Lower oil prices led oil exporters to cut back their imports sharply. Moreover, with many non-oil commodity prices falling to their lowest post-war levels in real terms, other primary producers also had to restrain their imports severely. As a result, exports from the main industrial countries were depressed, and industrial production rose by only 1 per cent in 1986.

1.10 Domestic demand in the seven major countries grew strongly in 1986, encouraged by substantial terms of trade gains and lower interest rates, though it has slowed more recently. The slowdown was most marked in the US,

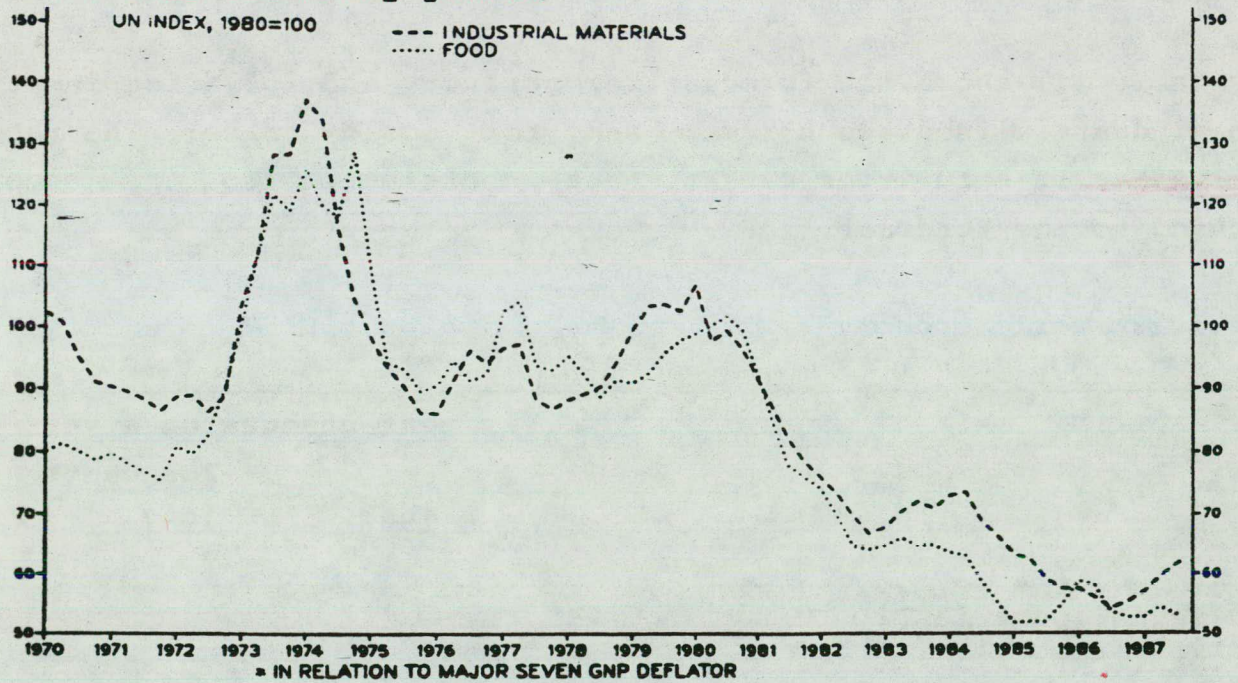
reflecting the effects of the dollar's depreciation and some tightening of policy. In Japan and Germany exports have weakened following the appreciation of their currencies and this also produced some weakness in business investment.

~~new~~ ^{Two}

1.11 Helped by the greater exchange rate stability achieved by the Louvre Accord and by some strengthening in ^{import} the demand ^{from} of developing countries, ~~for their exports~~. Activity in the seven major countries appears to have picked up, ^{recently} By June 1987 aggregate industrial production was 3 per cent higher than a year earlier.

1.12 Consumer price inflation has increased to about 3 per cent as a result of some recovery in oil and commodity prices from the very low levels reached in 1986. There has been no pick up in the growth rate of earnings and domestic costs.

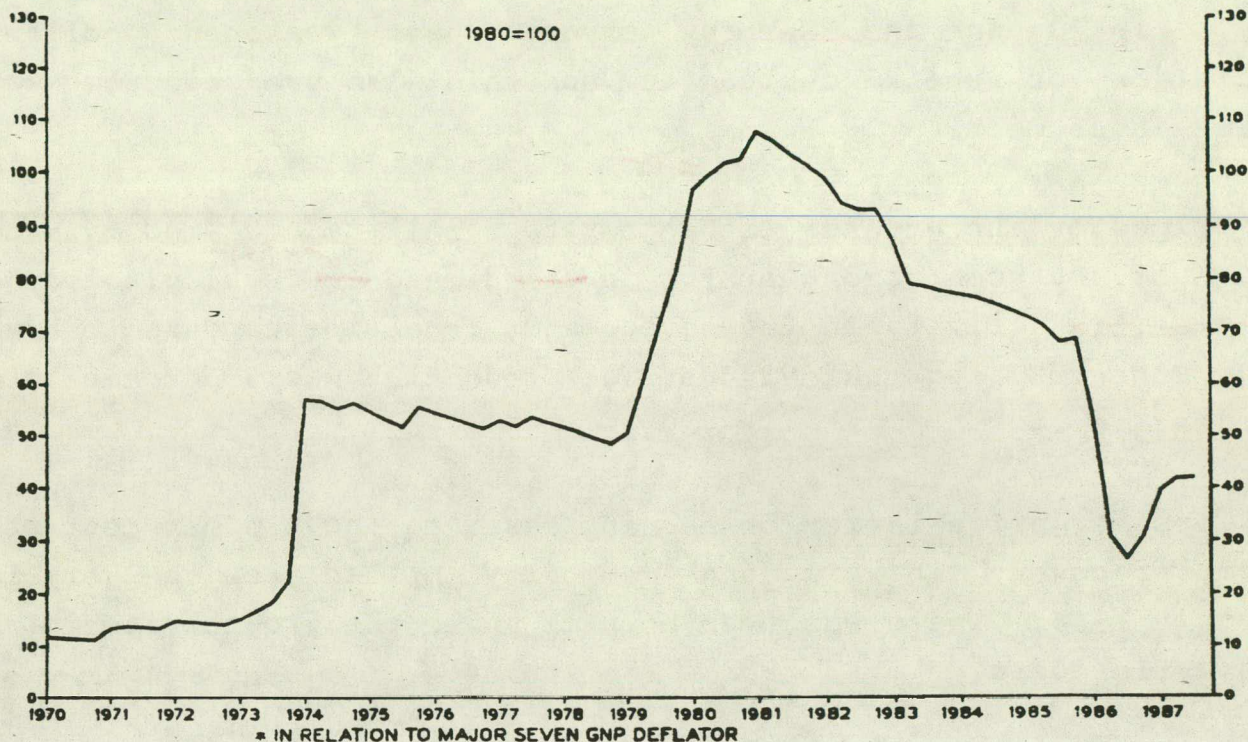
Chart 1.1: Real commodity prices*



1.13 The current account surpluses of Japan and, to a lesser extent, Germany have now started to decline. In the United States, trade volumes are responding to the decline in the dollar, but the current account is taking longer to turn around.

1.14 Oil prices rose to over \$20 per barrel for a short time in the summer before falling back a little to between \$18-19 per barrel as OPEC production expanded. Real non-oil commodity prices have recovered somewhat from the extremely low levels reached in the second half of 1986, but they remain well below their historical average. Food prices are particularly weak.

Chart 1.2: Real oil price*



Prospects

1.15 Table 1.1 shows the forecast for activity and inflation in the major seven industrialised countries, and for world trade. The recent sharp fluctuations in securities markets have contributed to the uncertainties attaching to the forecast.

Table 1.1: World economy

	<u>Per cent changes on a year earlier</u>		
	1986	1987	1988
<u>Forecasts</u>			
Major seven countries ¹ :			
Real GNP	2½	2½	2½
Real domestic demand	3½	2½	2½
Industrial production	1	3	3½
Consumer prices	2	2½	3
World trade at constant prices			
Total imports	4½	3½	4
Trade in manufactures	2	3½	4½
Main developed countries' exports of manufactures weighted by UK market share	1½	2½	3½

¹ US, Japan, Germany, France, UK, Italy and Canada

1.16 The forecast assumes that North Sea oil prices average around \$18 per barrel until the end of 1988. Real non-food commodity prices may continue to increase slightly over the next year or so, especially if industrial production in the major OECD countries grows reasonably strongly, but food prices are forecast to remain weak.

No reduction of

1.17 In the US there is little likelihood of more rapid growth of domestic demand in 1988 as the economy adjusts to its twin deficits, though the probable slowdown in consumers' expenditure could be in part offset by higher investment buoyed by rapid export growth. The recent fiscal package in Japan and the tax cuts planned in Germany should help sustain the growth of their domestic demand.

1.18 Industrial production growth in the seven major countries should increase again in 1988, helped by a continued recovery in their exports.

1.19 World import volumes are likely to rise by about 3½ per cent in 1987. This is somewhat slower than in 1986 when oil trade was very buoyant following the fall in price. Total world trade in manufactures, on the other hand, has strengthened and may grow by just under 4 per cent in 1987. Growth in world trade should be slightly higher in 1988. Imports into non-oil developing countries are expected to grow more strongly, despite the debt problems facing some of these countries, since the export earnings of primary producers will be increased by higher commodity prices. OPEC countries may cease cutting back their imports. Reflecting this change in the geographical distribution of trade, growth in trade in manufactures is expected to increase in 1988. ~~Developed countries' exports of manufactures weighted by UK market shares are forecast to grow more slowly than total world trade in manufactures, as the developed countries continue to lose share to newly industrialised countries.~~

PP

TRADE AND THE BALANCE OF PAYMENTS

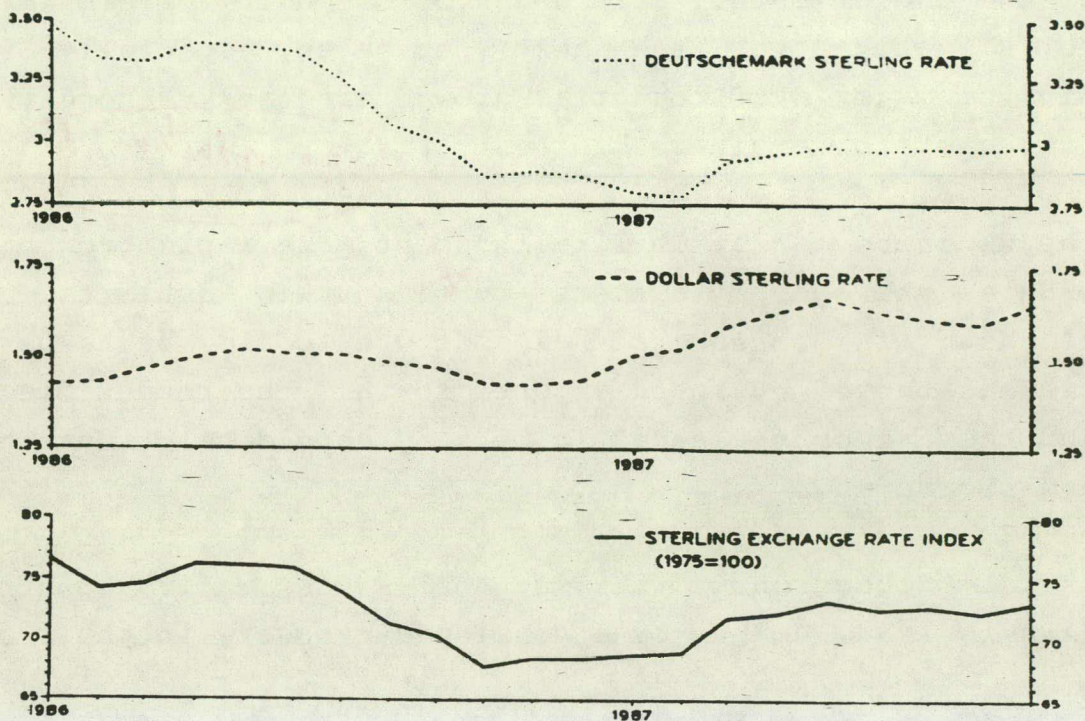
Exchange rates

the Italians have retroactively decided they were here!
(NEW)

1.20 Exchange rates between major currencies have remained broadly stable following the Louvre meeting of Finance Ministers ~~of six~~ of the leading industrial countries in February. Sterling has reflected this general stability, particularly against the Deutschemark, moving within a narrow range for several months. The forecast assumes that sterling remains ~~close to recent levels.~~

det
~~to recent levels.~~
Stable

Chart 1.3: Exchange rates



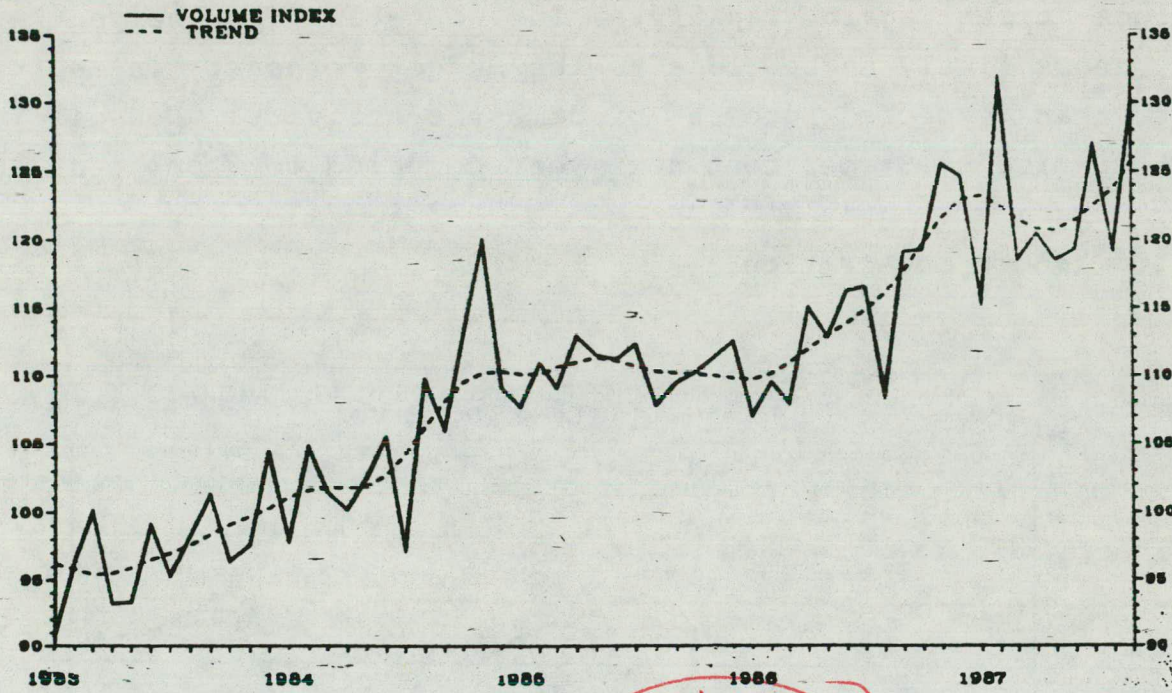
Relative costs and prices

1.21 Unit labour costs in the UK rose broadly in line with those of overseas competitors in the year to mid-1987. This has meant that the large gain in competitiveness in 1986 has been sustained.

Trade volumes (goods other than oil)

1.22 The volume of UK manufactured exports, which remained flat in the first half of 1987, has been rising again in recent months and this should continue in 1988 as markets for UK exports expand. Total non-oil exports are likely to increase by about 4 per cent in 1988 compared with a projected 7 per cent rise in 1987.

Chart 1.4: Export volumes (goods less oil)

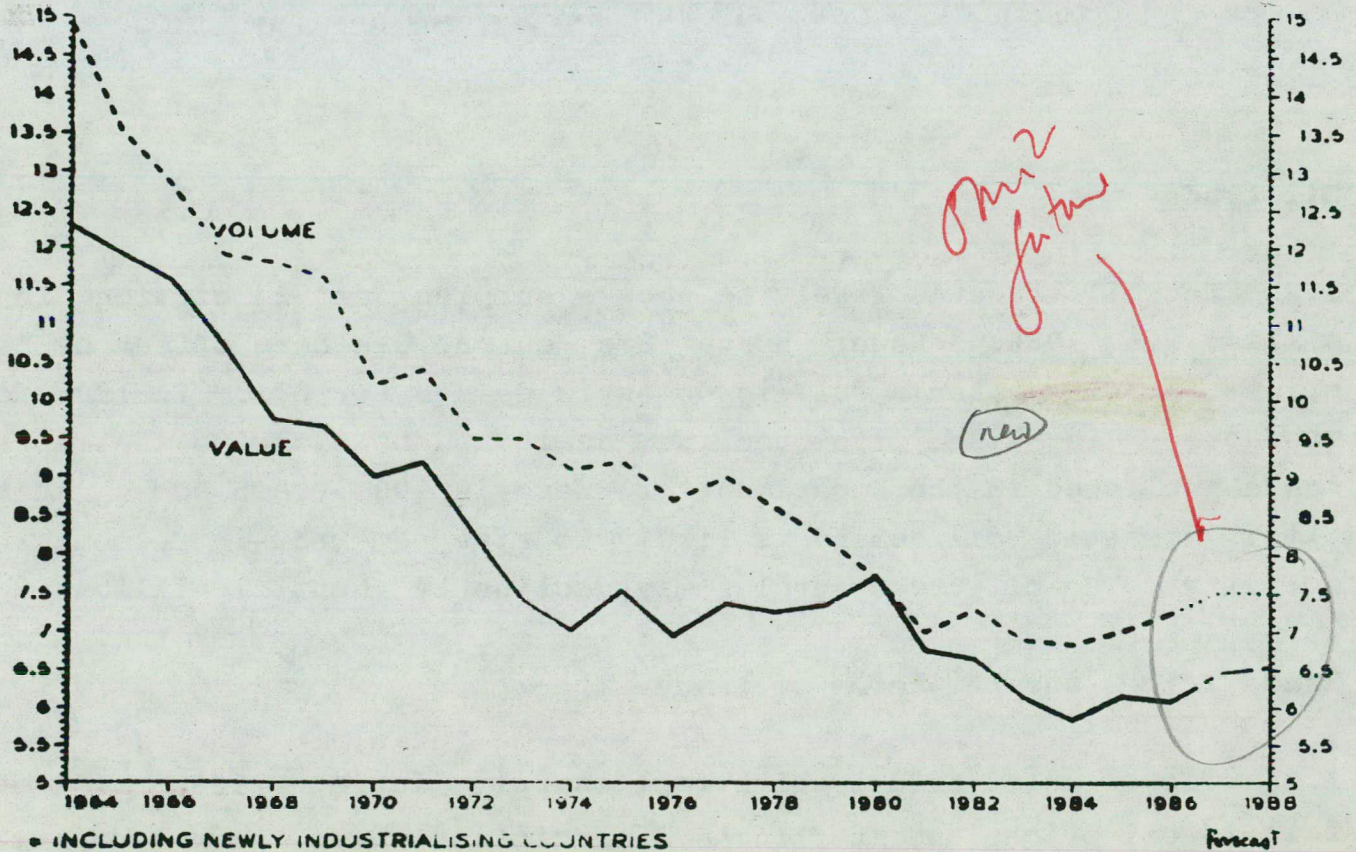


stabilise

1.23 Chart 1.5 shows how the UK's share of the volume of total world trade in manufactures, which declined during the 1970s, has been broadly steady since 1981.

Chart 1.5: UK shares of world trade in manufactures

constant



more future

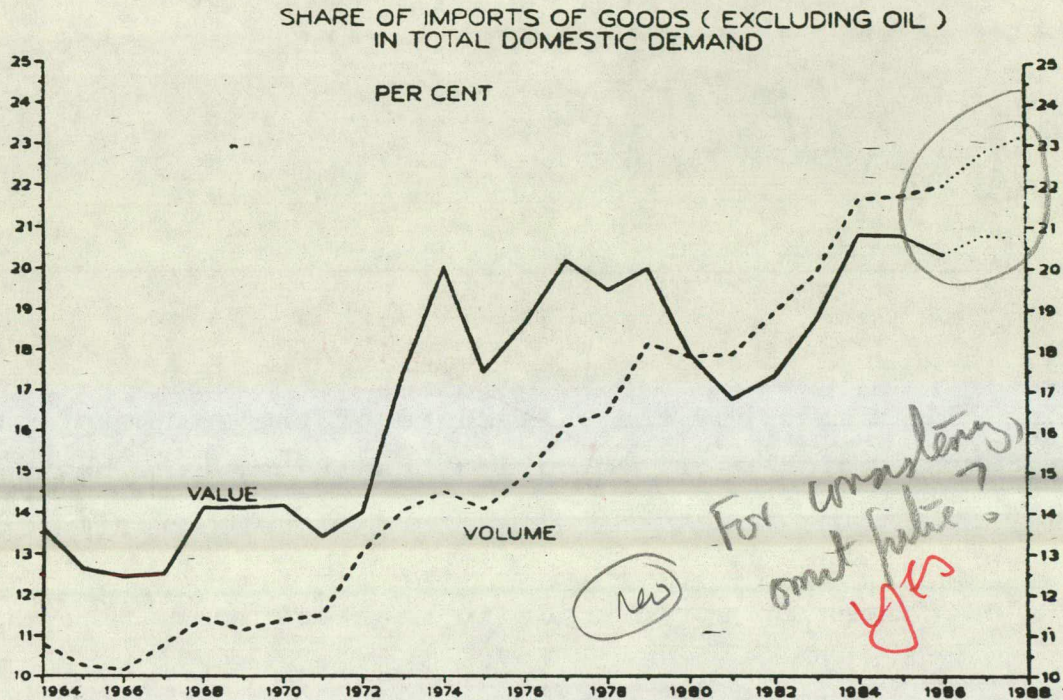
new

• INCLUDING NEWLY INDUSTRIALISING COUNTRIES

Forecast

1.24 Non-oil imports, which fell sharply in the early part of this year, have since risen again rapidly. The out-turn for the year as a whole, however, seems likely to be close to the Budget forecast in spite of the stronger than expected growth of domestic activity. Non-oil imports are forecast to rise by 5½ per cent next year compared to 8 per cent in 1987.

Chart 1.6: Import penetration



Oil trade

1.25 Net oil trade is likely to show a surplus of £4 billion in 1987 - similar to 1986. Lower North Sea output has been offset by higher oil prices on average and a fall in domestic demand for oil. In 1988 North Sea production is likely to decline again and be close to the centre of the range published in the Department of Energy's 1987 Brown Book. At the same time, domestic oil demand is likely to rise somewhat in response to rising activity. The oil trade surplus may decline by about £1 billion in 1988.

Trade prices and the terms of trade

1.26 The terms of trade, which fell sharply during 1986, ~~reflecting~~ ^{new} the fall in oil prices and sterling's depreciation, have recovered ~~partly~~ ^{as a result of} during 1987 as a result of higher oil prices, lower food prices and the rise in the

in the immediate aftermath of the Louvre accord.

[sterling] exchange rate. Little change in the terms of trade from the present level is forecast in 1988.

Table 1.2: Visible trade

Per cent changes on previous year

	All goods			Goods less oil		
	Export volume	Import volume	Terms of trade*	Export volume	Import volume	Terms of trade*
1986	3½	6½	-5½	4	5½	-1
1987 Partly forecast	5½	7	1½	7	8	1
1988 Forecast	3	6	½	4	5½	½

* The ratio of UK export average values to import average values.

Invisibles and overseas assets

1.27 The substantial surplus on ~~invisibles~~ seems likely to be about the same in 1987 as in 1986. The surplus on services should recover from last year's fall which was attributable partly to a decline in the number of tourists visiting the UK. Net earnings from interest, profits and dividends are expected to be higher despite some apparent narrowing of margins on banking business. These improvements should broadly offset an increase in the deficit on transfers, largely reflecting increased government contributions to the European Community. The invisibles surplus should increase again in 1988 as a result of a higher net surplus from interest, profits and dividends.

1.28 The value of the stock of UK net overseas assets, which rose by £37 billion to £114 billion by the end of 1986, has been affected during 1987 on both sides of the account by movements in financial markets in the UK and overseas, as well as by exchange rate changes, but the net position has probably changed little compared with the end of 1986.

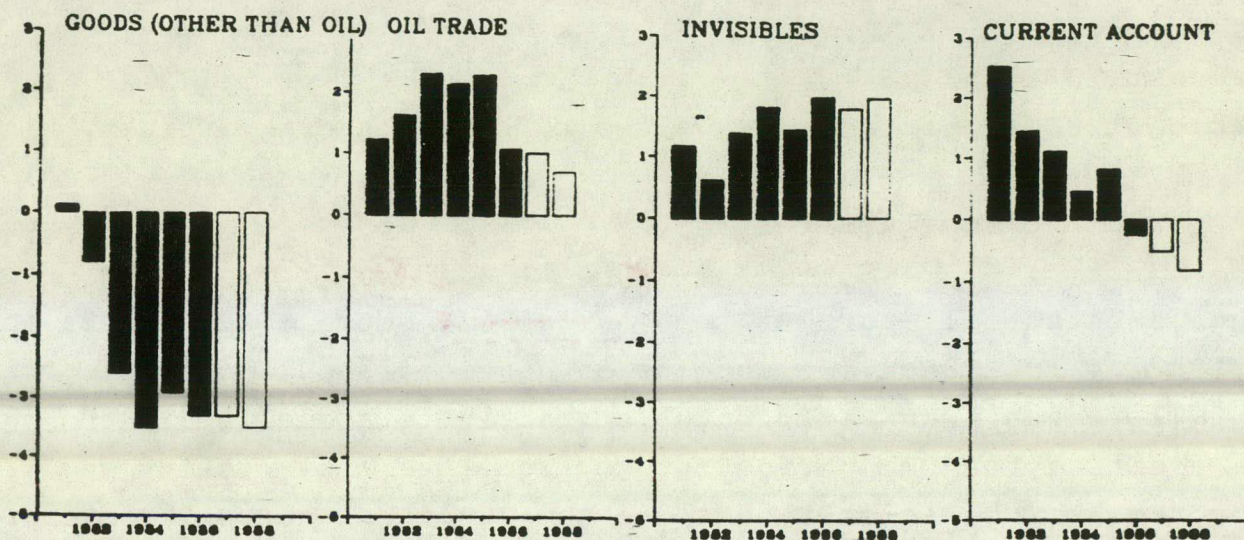
Table 1.3: Current account

£ billion

	Non oil goods		Oil	Invisibles	Current balance
	Manufactures	Other			
1986	-5½	-7	4	7½	-1
1987 Partly forecast	-7½	-6½	4	7½	-2½ ✓
1988 Forecast	-9	-6	3	8½	-3½ ✓

1.29 The current account was in deficit by £1½ billion in the third quarter of this year after a surplus of £½ billion in the first half of the year. The forecast for the year as a whole is for a deficit of £2½ billion, in line with the projection made at the time of the Budget. This is equivalent to about ½ per cent of GDP. The forecast for 1988 is for a slightly higher deficit of £3½ billion, reflecting the fall in the oil surplus.

Chart 1.7: The current account of the balance of payments (surpluses and deficits as a per cent of GDP)



DEMAND AND ACTIVITY

1.30 The UK economy has been growing steadily at ^{around} ~~close to~~ 3 per cent a year on average since early 1981, with only minor fluctuations ~~in the rate of expansion.~~ ~~During 1984 underlying growth was a little faster than this 3 per cent average, while the period from early 1985 to 1986 saw growth rather below average. Since early 1986 economic activity has quickened again, and grew by close to 4 per cent over the year to the first half of 1987, growth has been above this average rate, at close to 4 per cent.~~

1.31 Discrepancies in the national accounts mean that it is not possible fully to explain recent growth in output in terms of changes in the components of final expenditure. While the output and income based estimates of GDP suggest growth of just over 4 per cent over the year to the first half of 1987, the expenditure-based estimate of GDP shows about 2½ per cent growth. As the output-based estimate is the most reliable indicator of

*You wanted
the data*

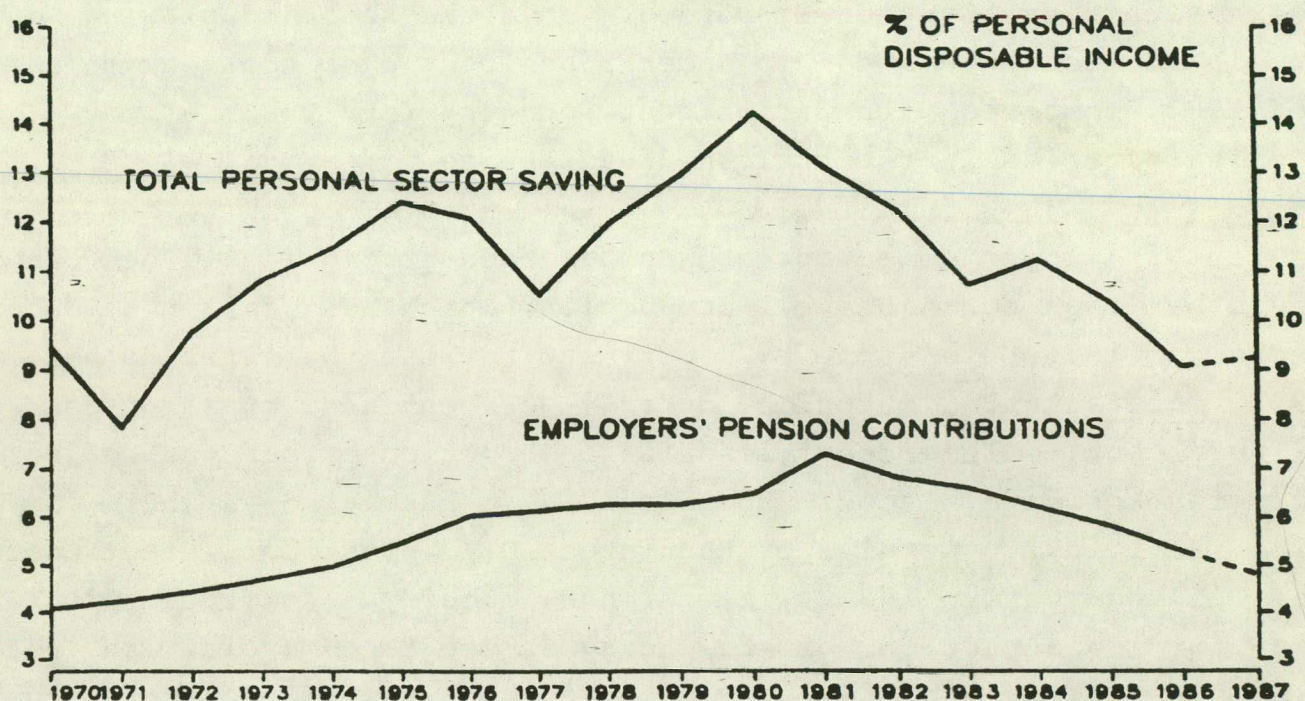
short-term GDP movements, it seems clear that some components of expenditure are being significantly under-recorded. Thus the recorded slowing down in growth in domestic demand - to under 3 per cent over the year to the first half of 1987, compared with 3½ per cent growth for 1986 - may in part reflect inaccuracies in the published statistics.

1.32 Over that period output growth has been strong in all sectors of the economy other than North Sea oil production, which has fallen. Output of the service industries rose by 5 per cent between the first halves of 1986 and 1987, manufacturing output by over 4½ per cent and construction output by 7½ per cent. The recent rise in construction output has reflected not only growing private sector housebuilding, but also higher commercial building activity. Results of the latest DTI investment intentions survey and the CBI quarterly industrial trends enquiry, together with recent figures for construction orders, suggest that commercial and industrial building is likely to be an important source of further growth in construction output over the next year or so.

Personal sector expenditure

1.33 Consumers' expenditure is now estimated to have increased by 5½ per cent in 1986, substantially more than growth in real personal disposable income. The personal savings ratio fell by about 1½ percentage points between 1985 and 1986, bringing it back to around the average level of the late 1960s and early 1970s. There are at least two major reasons why the savings ratio has fallen in recent years. First, the decline in inflation has reduced the extent to which households need to save simply to make good the erosion of past savings. Secondly, employers' contributions to pension funds have been falling relative to personal disposable income in recent years as companies have reacted to the surpluses that many funds have been showing: these contributions are treated in the national accounts as part of personal income and saving. This fall is unlikely to have had a large effect on consumers' expenditure and hence will have shown up as a fall in the recorded personal savings ratio. Chart 1.8 shows the savings ratio and the share of employers' contributions to pension funds in personal disposable income.

Chart 1.8: Personal saving



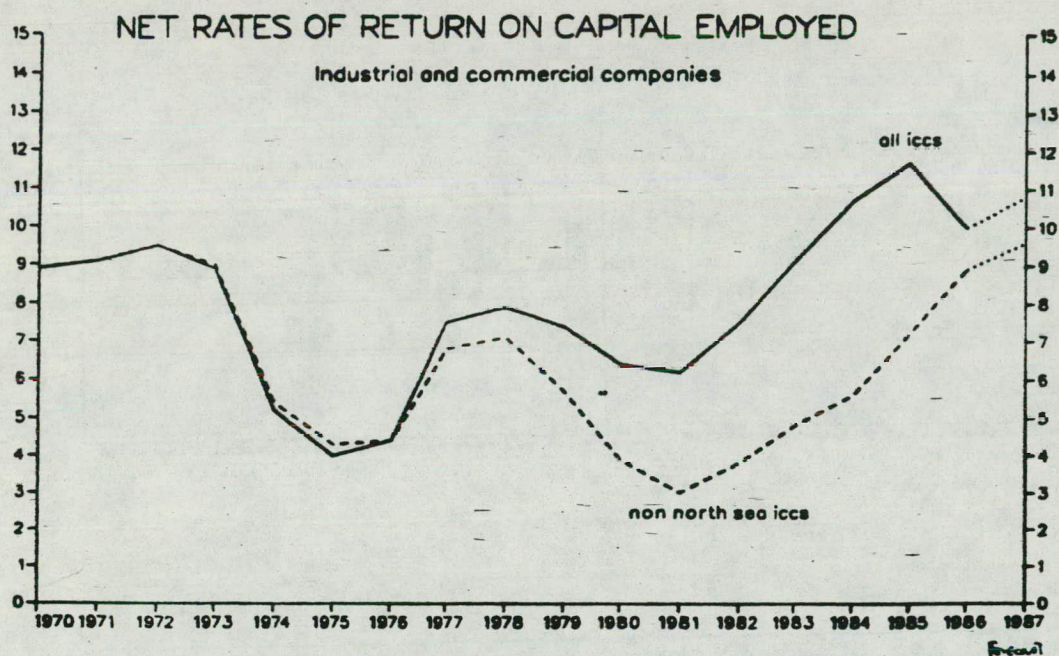
1.34 For 1987 as a whole consumer spending may rise by about 5 per cent, similar to the rise in real personal disposable income. In 1988 consumer spending may grow by about 4½ per cent, with little change in the savings ratio.

1.35 The housing market remains very buoyant. Although private housing starts have fallen back from their high first quarter levels, for the first eight months of 1987 as a whole they were 7 per cent higher than the year before, while private completions were 8½ per cent higher. With investment in improvements rising fast, private housing investment in 1987 as a whole may record an increase only a little below the 12 per cent rise seen in 1986. Housing investment is expected to rise further in 1988.

Company incomes and expenditure

1.36 The rate of return of non-North Sea industrial and commercial companies (ICCs) rose sharply again last year, and was back almost to the level recorded in 1973; while the rate of return of manufacturing companies was more than 3½ times the level recorded in 1981. ^{The} A sharp fall in North Sea companies' profits brought the net real rate of return earned by all ICCs in 1986 to some 10 per cent, below net earnings in 1985. But North Sea profitability appears to have improved this year as a result of the partial recovery in the oil price while the rate of return of non-North Sea companies has continued to rise, helped by strong growth in productivity.

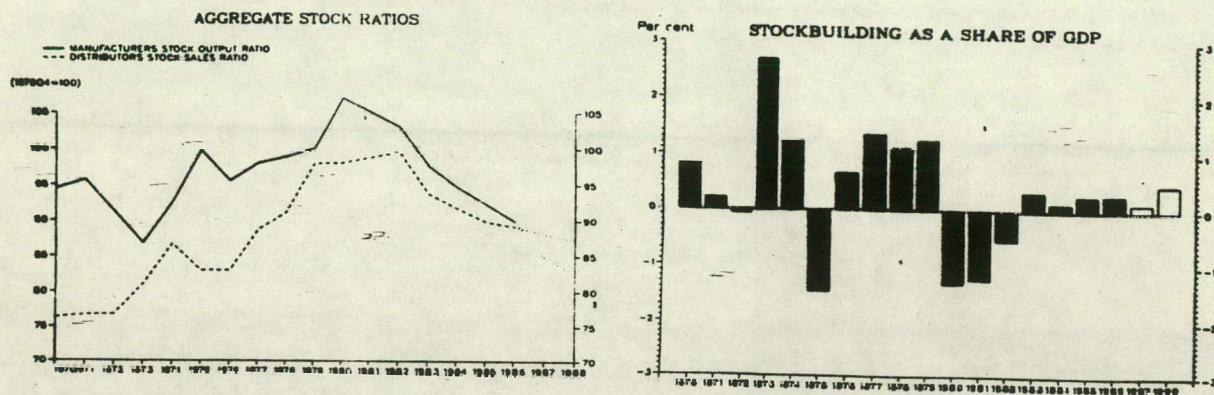
Chart 1.9: Companies rate of return



1.37 Non-North Sea business investment has recovered strongly in the first half of 1987. This follows a period of weakness in 1986, caused by bringing forward of capital spending into 1985 ahead of the final stage of the changes in capital allowances announced in the 1984 Budget. Manufacturing investment, including assets leased from finance lessors, rose some 7 per cent between the second half of 1986 and the first half of 1987. The projections of the DTI's June investment intentions survey (4 per cent growth in manufacturing investment in 1987 and 8 per cent growth in investment on average in all industries covered) now seem likely to be exceeded. The recent performance of output and profitability suggest that manufacturing investment could well accelerate next year. North Sea investment seems likely to fall again this year, to less than two thirds of the 1984 level, but may change little further next year.

1.38 Stocks fell in the first half of 1987. Given the sharp rise in sales, there may have been some involuntary element in the fall in manufacturing stocks. The full effect of the abolition of stock relief in the 1984 Budget may now have largely fed through, and responses to recent CBI enquiries suggest that a more positive trend in stockbuilding is now in prospect. Thus while stock output ratios are expected to fall further over the second half of 1987 and in 1988, the absolute level of stocks is likely to rise. Stockbuilding is forecast to make a small positive contribution to growth next year but to remain on a modest scale compared with many years in the 1960s and 1970s (see Chart 1.10).

Chart 1.10: Stockbuilding



Prospects for demand and activity

1.39 Growth in 1987 is expected to be around 4 per cent, but in 1988 to fall back closer to the average rate recorded since 1981. (See table 1.4). The slower growth reflects a fall in North Sea oil production and therefore net oil exports, and also a ~~more negative~~ ^{smaller} contribution from non-oil ~~trade~~ ^{exports} next year. Growth in 1987 and 1988 cannot yet, however, be fully explained in terms of expenditure because of the large discrepancy between the expenditure estimate of GDP and the average estimate in the first half of 1987.

1.40 North Sea output fell by some 2 per cent between the first halves of 1986 and 1987 and is expected to decline further in 1988. In both 1987 and 1988 declining output in the North Sea may reduce GDP growth by around 1/2 per cent. Manufacturing output is forecast to rise rather faster than total non North Sea GDP in both 1987 and 1988.

you mention "a smaller contribution from non-oil exports" - below is a possible explanation

Table 1.4: Domestic demand and GDP

	Per cent changes on a year earlier		
	Forecasts		
	1986	1987	1988
Domestic demand	4	4	4
Exports of goods and services ¹	3 (3½)	5½ (6½)	2½ (3½)
Imports of goods and services ¹	6 (5½)	6½ (7)	5½ (5)
Domestic production: GDP ^{1, 2}	3 (3)	4 (4½)	3 (3½)
Manufacturing production	1	5	4

¹ Non-oil shown in brackets

² Average measure

INFLATION

16

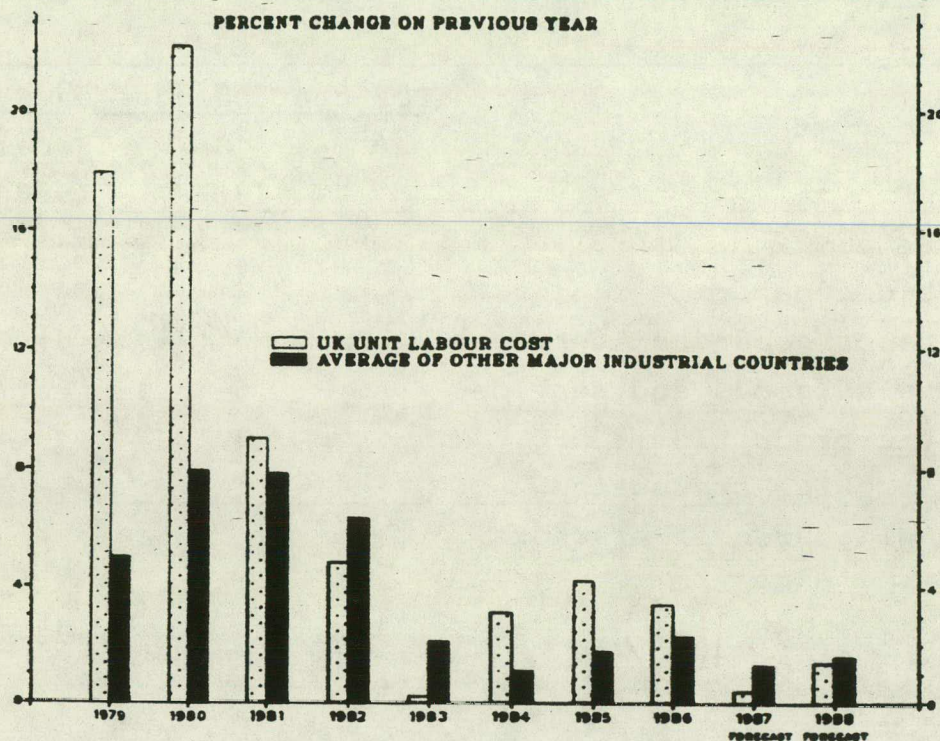
See copy note, para 0.

1.41 As forecast at the time of the Budget, the annual rate of inflation as measured by the RPI rose slightly during the summer, reflecting the profile of mortgage rates and petrol prices in 1986. (The national accounts measure of consumer prices has been showing a markedly lower rate of inflation than the RPI: it rose by under 2½ per cent over the year to the second quarter of 1987.) ~~(Retail price inflation)~~ is likely to average 4 per cent in the fourth quarter of 1987, in line with the Budget forecast. Producer output price inflation has been a little higher this year than forecast at Budget time, and the rate of increase of costs of materials and fuel has been rather faster than expected.

1.42 The underlying annual rate of increase in average earnings has risen slightly from 7½ per cent at the start of the year to 7¼ per cent in recent months. This is more than accounted for by a rise in overtime payments. Adjusted for overtime hours the underlying growth in average earnings has actually fallen over the last year, reflecting a significant fall in the level of pay settlements during the second half of 1986. However, there are signs that this downward trend in pay settlements has to some extent been reversed over recent months.

1.43 Growth in unit labour costs has been kept down by the rapid growth of productivity and by relatively slow growth in non-wage labour costs. Indeed, unit labour costs in manufacturing may have hardly risen at all between 1986 and 1987. For the first time since 1983, unit labour costs in manufacturing in the other major industrial countries have on average risen faster than in ^{the} UK.

Chart 1.11: Unit labour costs



Prospects

1.44 The very low growth in costs over the last two years has not been fully reflected in producer output prices. With the benefit of substantial gains in competitiveness relative to producers overseas and fast growth in demand, UK manufacturing industry has experienced large increases in profit margins. Profit margins may continue to rise, if a little more slowly than in recent years. Thus in spite of slightly faster growth in ^{total unit} costs, producer output prices are forecast to rise next year by about the same amount as this year and last. (See table 1.5).

Table 1.5: Costs in manufacturing

	Per cent changes on a year earlier			
	Unit labour costs	Cost of materials and fuel ¹	Estimated total unit costs ²	Output prices ¹
1985	4	4	4	6½
1986	3½	-11	-½	4½
1987 Partly forecast	½	5½	1½	4½
1988 Forecast	1½	3	2	4½

¹ Producer prices excluding food, drink and tobacco

² Including costs of bought in services

1.45 Retail price inflation is expected to fall below 4 per cent by the end of the fourth quarter of 1987, but given the conventional assumption of a full revalorisation of specific duties in the 1988 Budget, compared with the standstill in the 1987 Budget, and the need for higher electricity prices to finance the industry's investment programme there is likely to be a temporary rise in the annual rate of increase in the RPI after the first quarter of 1988. In the light of this, the forecast is for the RPI to increase by $4\frac{1}{2}$ per cent over the year to the fourth quarter of 1988.

Table 1.6: Retail prices index

	Weight in 1987	Per cent changes on a year earlier		
		1986Q4	Forecasts	
			1987Q4	1988Q4
Food	16 $\frac{1}{2}$	3 $\frac{1}{2}$	3 $\frac{1}{2}$	3
Nationalised industries ¹	6	3 $\frac{1}{2}$	2 $\frac{1}{2}$	6 $\frac{1}{2}$
Housing	15	7	7 $\frac{1}{2}$	8 $\frac{1}{2}$
Other	62 $\frac{1}{2}$	2 $\frac{1}{2}$	3 $\frac{1}{2}$	4 $\frac{1}{2}$
Total	100	3$\frac{1}{2}$	4	4$\frac{1}{2}$

¹ Includes water

1.46 The GDP deflator measures the price of domestic value added - principally unit labour costs and profits per unit of output - and excludes import prices. The GDP deflator at market prices is forecast to rise by $4\frac{1}{2}$ per cent in the current financial year, just below the Budget forecast, following an increase of 3 per cent last year. The higher rate of increase this year is more than accounted for by a recovery in North Sea profits following their fall of over 50 per cent in 1986-87. The GDP deflator is now forecast to rise by $4\frac{1}{2}$ per cent in 1988-89.

PRODUCTIVITY AND THE LABOUR MARKET

1.47 The growth in the employed labour force in Great Britain has been gathering pace over the last year: in the twelve months to June 1987 it is estimated to have risen by 372,000. Since 1983, there has been an increase of around 1,350,000 in the number of jobs. The strong growth in manufacturing and construction output this year has been reflected in particular in a rise in male employees: the 86,000 rise in the six months to June was the largest half yearly rise since the first half of 1973.

Table 1.7: Employment

Thousands, change in GB seasonally adjusted					
	Employees in Employment		Self- employed	HM Forces	Employed labour force
	Male	Female			
June 1984 to June 1985	+82	+191	+115	0	+387
June 1985 to June 1986	-56	+151	+ 17	-4	+108
June 1986 to June 1987	+72	+200	+102*	-3	+372

* Figures for self-employment over the last year is a projection based on self-employment growth over the previous five years.

1.48 Productivity has been growing strongly, with manufacturing productivity now estimated to have risen by 4 per cent a year on average since 1979. Underlying growth in labour productivity now appears to be ~~as high as or~~ ^{if any thing} higher than the rate experienced in the 1960s. This has been accompanied recently by a substantial improvement in capital productivity. Non-manufacturing output per full time equivalent has risen by about 1½ per cent a year since 1979, and by about 2½ per cent a year since 1983. Output per head has grown less than this as result of the large rise in part-time employment.

Table 1.8: Output per head of the employed labour force

	Annual averages, per cent change		
	1964-73	1973-79	1979-87
Manufacturing	3½	½	4
Non manufacturing ^{1, 2}	3	½ (½)	1½ (1½)
Whole economy ²	2½	1½ (1½)	2 (2½)
Non-North Sea economy ²	2½	½ (½)	1½ (2)

¹ Excludes public services and North Sea oil and gas extraction

² Figures for output per full time equivalent in brackets

Unemployment

1.49 Since June 1986 seasonally adjusted adult unemployment has fallen for sixteen months in succession, by some 437,000 in total; the number of unemployed school leavers has also fallen, by some 48,000 over the last

year. The greater part of the improved trend in unemployment is attributable to the strong growth of output and employment this year. The remainder is due to various government measures to provide training or work experience for the unemployed, or to help them to find jobs. The encouraging prospects for the UK economy over the next year mean that a continued fall in unemployment is likely. The main danger to the chances of further progress in reducing unemployment is of pay settlements being too high.

Financial developments

check *1984*

1.50 The sterling exchange rate, as already noted, has been broadly stable over the past eight months, following the conclusion of the Louvre agreement. During that time there has been a substantial inflow into the reserves amounting to some £9 billion. Short-term interest rates ~~were raised in the summer, and~~ remain historically high in real terms. Long-term rates throughout the world, which fell in the early part of the year, were edging up again until the stock market fall in October. In the UK, unlike the US and most other countries, the yield curve is flat.

1.51 The year-on-year growth of M0 has been somewhat above the midpoint of its 2-6 per cent target range in recent months, in part reflecting earlier falls in interest rates. M0 is expected to continue to grow quite briskly in the immediate future before slowing down as a result of the rise in interest rates in August ~~and the recent sharp fall in the stock market.~~

is also likely to produce slow growth in M0.

1.52 Broad money has continued to rise rapidly. This has reflected at least in part increased deposits by companies and financial institutions. The strong growth of broad money, which has been evident in recent years, is to a ~~large~~ ^{considerable} extent the consequence of financial innovation and liberalisation. On the balance of evidence, monetary conditions remain firm.

Fiscal developments

1.53 Tables 1.09 to 1.11 show both the Budget projections and latest forecasts for general government expenditure and receipts and public sector borrowing in 1987-88. They show also the 1986-87 outturn. The PSBR in 1986-87 was £3½ billion, nearly £½ billion lower than estimated in the 1987 FSBR. Lower central government borrowing, more than accounted for by higher

than expected tax revenues, was responsible for about two-thirds of this downward revision, with the remaining one-third due to lower than expected local authority borrowing.

1.54 In the first six months of 1987-88 the PSBR was £1½ billion. Excluding privatisation proceeds, borrowing was about £1½ billion lower than in the first half of 1986-87. The revised forecast for 1987-88 as a whole is a PSBR of £1 billion, about £3 billion lower than forecast in the FSBR. Four fifths of this downward revision is on the receipts side and one fifth on the expenditure side.

This is mainly due to ~~higher~~ higher (attributable) than expected tax revenues, but there is also a slight fall in the expenditure side. I think this will be V. compensation and is better omitted. AA

1.55 Table 1.09 shows the relationship between the public expenditure planning total and general government expenditure. The outturn for the public expenditure planning total is expected to be £1 billion lower than was forecast in the FSBR. This is largely accounted for by higher capital receipts (by) local authorities and New Towns. Excluding privatisation proceeds, general government expenditure is now projected to increase by 5 per cent in 1987-88, a little less than the increase in 1986-87.

Table 1.09: General Government Expenditure

	£ billion		
	1986-87 Outturn	1987-88 Budget Forecast	Latest Forecast
Public expenditure planning total	139.4	148.6	147.6
Interest payments	17.4	17.9	17.8
Less public corporations' market and overseas borrowing	-1.5	-0.8	-0.7
Other adjustments	6.9	6.2	6.7
General government expenditure	165.1	173.5	172.8
of which Privatisation proceeds	-4.4	-5.0	-5.0

*VUMP
= this is of
say Giele.
OK*

£1m

↔

*£0.7m
= (not really)
1/5 of
£2.9m*

1.56 Table 1.10 shows the forecast for general government receipts. The forecast of tax and national insurance revenues has been increased by just over £2½ billion since the Budget. The forecast of on-shore corporation tax, including ACT, is about £½ billion higher, mainly reflecting upward revisions to profits estimates for 1986 in the recent Blue Book and, in the case of ACT, a higher level of dividend payments so far in 1987. The upward revision of £½ billion to North Sea revenues is more than accounted for by

the higher dollar oil price than was assumed at Budget time. The forecasts of personal income tax, VAT and national insurance contributions are also each about £½ billion higher than in the FSBR. General government receipts in total are now forecast to rise by nearly 7 per cent in 1987-88, following an increase of 5½ per cent in 1986-87 (when North Sea revenues more than halved).

Table 1.10: General Government Receipts

	£ billion		
	1986-87 Outturn	1987-88 Budget Forecast	Latest Forecast
Taxes on income, expenditure and capital	119.6	127.8	130.1
National insurance and other contributions	26.7	28.5	28.9
Interest and other receipts	13.3	12.6	12.3
Accruals and adjustment	0.5	0.0	-0.2
Total receipts	160.2	168.8	171.1
of which North Sea revenues	4.8	3.9	4.5

1.57 Table 1.11 shows the old and new forecasts for borrowing. The PSBR forecast is still subject to a great degree of uncertainty: the average error on PSBR forecasts for the current financial year made in the autumn is ½ per cent of GDP, or £2½ billion. But on the basis of this forecast, the PSBR, both including and excluding privatisation proceeds, will be lower as a proportion of money GDP than in any year since 1970-71.

Table 1.11: Public Sector Borrowing

	£ billion		
	1986-87 Outturn	1987-88 Budget Forecast	Latest Forecast
General government expenditure	165.1	173.5	172.8
General government receipts	160.2	168.8	171.1
General government borrowing requirement	4.9	4.7	1.7
Public corporations' market and overseas borrowing	-1.5	-0.8	-0.7
PSBR	3.4	3.9	1.0
PSBR as per cent of GDP	1	1	½
Memorandum item:-			
PSBR excluding privatisation proceeds	7.9	8.9	6.0
As per cent of GDP	2	2	1½

Table 1.12: Economic prospects: summary

	Forecast		Average errors from past forecasts ¹
	percent changes		
	1986 to 1987	1987 to 1988	
A Output and expenditure at constant 1980 prices			
Domestic demand			
of which:			
Consumers' expenditure	4	4	1
General government consumption	5	4½	1½
Fixed investment	1	1	1
Stockbuilding (as per cent of level of GDP)	5½	4½	2½
	0	½	¾
Exports of goods and services	5½	2½	2½
Imports of goods and services	6½	5½	2¾
Gross domestic product: total	4	3	¾
manufacturing	5	4	2½
Inflation			
Retail prices index	per cent changes		
1986Q4 to 1987Q4	4		
1987Q4 to 1988Q4	-4¾		2
Deflator for GDP at market prices	per cent changes on a year earlier		
Financial year 1987-88	4½		
Financial year 1988-89	4½		2
Money GDP at market prices	£ billion ²		
Financial year 1987-88	419 (8¾)		
Financial year 1988-89	452 (7¾)		1½
Balance of payments on current account			
1987	-2½		
1988	-3½		3

¹ The errors relate to the average differences (on either side of the central figure) between forecast and outturn; the errors given for constant price output and expenditure are relevant to the forecast for next calendar or financial year. The method of calculating these errors has been explained in earlier publications and Government forecasts (see Economic Progress Report June 1981). The calculations of average errors are based on forecasts made between 1975 and 1985.

² Per cent change on previous financial year in brackets

TABLE 1.13 CONSTANT PRICE FORECASTS OF EXPENDITURE, IMPORTS AND GROSS DOMESTIC PRODUCT

£ billion at 1980 prices, seasonally adjusted

	Consumers' expenditure	General government consumption	Total fixed investment	Exports of goods and services	Change in stocks	Total final expenditure	Less Imports of goods & services	Less Adjustment to factor cost	Plus Statistical adjustment	Gross domestic product at factor cost	GDP index 1980=100
1982	138.4	49.6	39.5	63.1	-1.0	289.7	59.2	30.6	0.9	200.8	100.6
1983	144.0	50.6	41.6	64.4	0.7	301.2	62.7	31.6	0.5	207.4	103.9
1984	147.1	51.0	45.0	68.9	0.3	312.2	68.8	32.8	2.0	212.7	106.5
1985	152.5	50.9	46.4	72.8	0.6	323.3	70.7	33.9	1.7	220.4	110.4
1986	161.3	51.4	46.5	75.1	0.7	335.0	75.1	35.4	2.7	227.1	113.8
1987	169.1	51.8	49.0	79.2	0.3	349.4	80.0	37.1	4.3	236.7	118.5
1988	176.6	52.4	51.2	81.2	1.1	362.6	84.5	38.5	4.5	244.1	122.2
1986 H1	79.6	25.7	22.9	36.6	0.4	165.2	35.9	17.4	0.8	112.7	112.9
H2	81.6	25.7	23.7	38.5	0.3	169.8	39.2	18.0	1.9	114.5	114.7
1987 H1	83.0	25.6	23.9	39.0	-0.3	171.3	38.3	18.3	2.2	116.9	117.1
H2	86.2	26.2	25.1	40.1	0.6	178.1	41.7	18.8	2.2	119.8	120.0
1988 H1	87.6	26.2	25.3	40.2	0.5	180.0	41.7	19.1	2.2	121.3	121.5
H2	89.0	26.2	25.9	41.0	0.6	182.7	42.7	19.4	2.3	122.8	123.0

Per cent changes

1985 to 1986	6	1	$\frac{1}{2}$	3	-	$3\frac{1}{2}$	6	$4\frac{1}{2}$	-	3	3
1986 to 1987	5	1	$5\frac{1}{2}$	$5\frac{1}{2}$	-	$4\frac{1}{2}$	$6\frac{1}{2}$	$4\frac{1}{2}$	-	4	4
1987 to 1988	$4\frac{1}{2}$	1	$4\frac{1}{2}$	$2\frac{1}{2}$	-	4	$5\frac{1}{2}$	4	-	3	3

CONFIDENTIAL

FROM: A TURNBULL
DATE: 23 OCTOBER 1987

HEADS OF EXPENDITURE DIVISIONS

cc HEGs
Miss O'Mara *
Miss Evans *
Miss Walker
Mrs Burnhams
Mr Fray*
~~Mr Binns~~
* w/o attachment

Nigel

TIMING OF AUTUMN STATEMENT

I attach a copy of the letter sent to Private Secretaries, which I have recirculated to PFOs.

2. When the draft Press Notices arrive, could divisions copy them to Miss Walker in GEP so that we can check them against our figures.

3. The Autumn Statement will not publish figures for departments' running costs or manpower and no mention is being made at this stage of management plans or productivity targets. Nevertheless, for some departments discussion of the Survey outcome will inevitably involve references to administrative expenditure and manpower. Please could divisions check these with Mr Hansford or Mr Binns in RCM.

AT

A TURNBULL

SCORECARD

Copy No 1 of 15 Copies

FROM: JOHN GIEVE

DATE: 23 October 1987

CHANCELLOR OF THE EXCHEQUER

- cc Chief Secretary
- Sir P Middleton
- Sir T Burns
- Mr F E R Butler
- Mr Anson
- Mr Monck
- Mr Turnbull
- Mr Sedgwick
- Mr Luce
- Mr Pratt
- Mrs Butler
- Mr G C White
- Miss Walker

Texts
 (OK, as am I, subject to
 any comments re CSS may have.
 Graphs also OK. ^{Ch} OK?
 As to tables, I have only checked
 one* - that appears to be wrong. ~~It~~
 Per Sir Paul re this on checked

AUTUMN STATEMENT CHAPTER 2

with typed notes.

** 2.4*

I attach a draft of Chapter 2 of the Autumn Statement. Subject to your comments we plan to send it to the printers on Tuesday.

2. The main departmental tables are in the format agreed yesterday. We have put in our latest numbers in order to provide background for the text. However we have not completed the process of checking and transferring provision between programmes and there are still likely to be some changes. In the final version of the table we will also round all the figures, except for the outturn for 1986-87, to the nearest £10m (£100m for social security and the totals, £500m for the other accounts adjustments, and £1 billion for debt interest) as we did last year. We will be putting to you a submission on the final figures at the beginning of next week.

3. Last year we included a paragraph on not relaxing the stance of fiscal policy. As you will see, we have included space in the draft ~~at~~ paragraph 5 for a statement on economic policy should you wish to include one.

John Gieve

JOHN GIEVE

CONFIDENTIAL

PUBLIC EXPENDITURE PLANS

MAIN POINTS

Public expenditure will continue to fall as a proportion of the nation's income over the next three years. Before deducting privatisation proceeds, general government expenditure is expected to fall as a percentage of GDP from 44 per cent in 1986-87 to 42½ in 1987-88, and to 41 per cent in 1990-91, the lowest it has been since the early 1970s. The new ratios are lower in each year than envisaged in the last public expenditure White Paper (Cm 56). *sharply* *then gradually* *worse*

2. The public expenditure planning totals have been set at £156.9 billion for 1988-89 and £167.2 billion for 1989-90 increases of £2.7 billion and £5.7 billion over those published in Cm 56. A planning total of £176.6 billion has been set for 1990-91.

3. In real terms, the average growth in general government expenditure before deducting privatisation proceeds in the four years from 1986-87 to 1990-91 is expected to be 1½ per cent a year. This compares with growth averaging almost 3 per cent in the decade up to 1978-79, around 2½ per cent in the four years from 1978-79 to 1982-83 and around 1½ per cent in the four years from 1982-83 to 1986-87.

4. The new plans include increased provision for high priority services such as health, law and order, defence, and education. Extra provision of some £1 billion has also been made for capital spending in each year; this includes large increases for the nationalised industries and housing, education, and roads. The plans include substantial uplifts for local authority current and social security expenditure. They also provide for larger uncommitted Reserves in the two later years.

[5. *Card* Announcing these changes in the House of Commons on November 1987, the Chancellor reaffirmed the Government's commitment to a prudent fiscal stance and said that [Statement on policy, if any].]

6. The trends of public spending in real terms and as a percentage of GDP are illustrated in Charts 2.1 and 2.2 and summarised in Tables 2.1 and 2.2. *Full* Details of the spending plans will be published in the forthcoming 1988 public expenditure White Paper.

was planned and

1987-88 OUTTURN

the planning total

7. The latest forecast of ~~spending~~ in the current year, 1987-88, is ~~that the planning total will be~~ £147.6 billion. This is £1 billion lower than ~~the plan~~ published in Cm 56. The reduction is attributable to ~~unexpected~~ increases in the capital receipts of local authorities and new towns.

CHANGES TO PLANS

8. Table 2.3 sets out the revised spending plans and the changes since Cm 56 for each departmental programme. Tables 2.5, 2.6, and 2.7 show a breakdown of these totals by three spending authorities: central government, local authorities, and public corporations (including nationalised industries). The following paragraphs briefly report the main changes.

Defence

cutback *Significant* *have been made*

9. ~~The additions to provision for 1988-89 and 1989-90 recognise the pressures on the programme following the end of the period of substantial real growth.~~ Provision in 1990-91 is £610m higher than in 1989-90. The increase over plan in the current year is a result of the carry forward of capital underspending from 1986-87 under the end-year flexibility scheme.

Foreign and Commonwealth Office (Diplomatic Wing)

10. A net reduction on this programme has been made possible largely by a fall in the estimated cost of the FCO's overseas operations resulting from movements in overseas prices and exchange rates. The revised provision includes additions for the current expenditure of the BBC External Services for the next three year period.

Overseas Development Administration

small modest

11. The increases to the net overseas aid programme provide for growth in real terms over the next three years.

European Communities

12. The latest projection of the United Kingdom's net payments to the European Community Institutions, which assumes a continuance of the 1.4% VAT ceiling. The profile shows a drop in payments in 1988-89 followed by an increase in 1989-90 mainly because the UK is expected to benefit from an exceptionally large abatement (£1750 million) during 1988. The revisions to the projection since the White Paper result from a fall in our projected share of agricultural receipts and an increase in our share of gross contributions, reflecting higher customs duties and levies and a revised forecast of the UK's VAT base.

Ministry of Agriculture, Fisheries and Food

Total provision for spending on Agriculture

13. Small additions to provision have been made in a number of areas, in particular on the Farming and Rural Enterprise initiative (announced in February). These are more than offset by a reduction in the estimated cost of market support under the Common Agricultural Policy, including savings arising from policy reform. Most of the market support expenditure is ultimately financed from the Community Budget receipts which are reflected in UK's net contribution to the EC. Including expenditure by the Intervention Board for Agricultural Produce, the Scottish, Welsh and Northern Irish agriculture departments, and the Forestry Commission, there will be net reductions from Cm 56 of £170 million and £140 million respectively in 1988-89 and 1989-90.
 is below the Cm 56 levels by Jh

Trade and Industry

14. Increased provision is made for launch aid for the new Airbus (as announced in July), for revised estimates of the costs of commitments under demand-determined schemes of industrial assistance, and for the expansion of some advisory services.

Export Credit Guarantee Department

15. The changes to the plans reflect the latest estimates of the cost of interest support and tender to contract cover.

Energy

16. The departmental totals include both departmental expenditure and the external finance for the energy industries (which is negative in some years). There are increases to reflect growth in essential safety related work by the Atomic Energy Authority on decommissioning and nuclear waste management and the costs of moving to new accommodation and changes in estimates of payments under the redundant mineworkers' payments scheme. There are also increases in the external financing requirements of the electricity industry in England and Wales (see paragraph 39).

Employment

17. There are a number of broadly balancing increases and reductions within the new totals. There is increased provision for support for tourism, Jobclubs, the Health and Safety Executive, adult training (as a result of the employment measures announced in January) and the Youth Training Scheme (reflecting the withdrawal of income support for school leavers). The Job Release Scheme and New Workers Scheme will be closed for applications from 31 January 1988.

Transport

18. Additional provision has been made for expenditure on national roads, particularly for a programme of bridge renovation and repair, and for gross capital expenditure by local authorities.

Housing

19. Provision for gross capital expenditure on housing has been increased by £380 million in 1988-89 and £280 million in 1989-90. This will enable the Housing Corporation to provide substantial extra aid for housing associations and will make available resources for the setting up of Housing Action Trusts. It will also provide for increases in planned spending by local authorities and New Towns. The continuing success of the Government's right to buy policy is reflected in further significant increases in the forecast level of capital receipts.

Other Environmental Services

20. Higher receipts for New Towns and Local Environmental Services will provide for substantially increased expenditure on Urban Development Corporations and on countryside, recreation, heritage and environmental research programmes. In addition

£20 million of extra funds has been provided to the National Heritage Memorial Fund in 1987-88.

Home Office

21. Provision in all years has been increased to finance an acceleration and expansion of the prison building programme. Provision for local authority expenditure, principally on the police, has also been increased substantially.

Legal Departments

22. Provision has been increased mainly to cover the cost of a larger court building programme and a permanent 'payments on account' scheme for lawyers; the plans also cover the increased costs of the Crown Prosecution Service and the cost of setting up the Serious Fraud Office.

Education and Science

23. ^{Additional} Provision has been made for the implementation of the Government's education reforms, including the introduction of the national curriculum; and for universities, mainly for a programme of restructuring. The science budget is being increased. Provision has also been substantially increased for current and capital expenditure by local authorities.

Arts and Libraries

24. Additions have been made for incentive funding and for increased estimates of the cost of the British Library new building project. Increased provision has also been made for local authority expenditure on museums, galleries and libraries.

Health

25. Additional provision has been made for the hospitals and community health services. In addition, health authorities will have available extra cash generated by a new programme for increasing hospital income through ~~non-NHS use of goods and services.~~ ^{from non-NHS sources.} ~~As well,~~ ^{also} health authorities will have available extra cash released by land sales and by their continuing cost improvement programmes. The latter are expected to yield £150 million in 1987-88 (on top of the £500 million achieved prior to that). Provision for the Family Practitioner Services allows for higher forecast demand and for further service improvements. There is also increased provision for local authority spending on personal social services.

Social Security

26. The new plans reflect the latest estimates of benefit expenditure over the Survey period. They reflect the decision announced last May to include within income-related benefits the average cost to claimants of paying 20 per cent of rates. The provision also takes account of the statement on benefits by the Secretary of State on 27 October 1987 and allows for further upratings of benefits in April 1989 and April 1990. For the purpose of these estimates, the number of unemployed (GB, excluding school-leavers etc) is assumed to average 2.7 million in 1987-88 and 2.6 million in 1988-89, 1989-90, and 1990-91. The RPI is assumed to rise by 4.75 per cent in the year to September 1988 (for the uprating in April 1989) and by 3.25 per cent in the year to September 1989 (for the upratings in April 1990).

Scotland, Wales and Northern Ireland

27. The net changes in these programmes mainly reflect the effects of changes in comparable programmes in England. The Secretaries of State will allocate this expenditure taking account of local factors. The breakdown of figures between central Government, local authorities, and public corporations, is based on previous patterns of expenditure and may be varied.

Chancellor's Departments

28. Additional resources have been provided for the Revenue departments to deal with increases in workload and to strengthen controls against drug smuggling. A third of the overall increase reflects changes in the estimates of relief on life assurance premiums and mortgage interest to non-taxpayers.

Other departments

29. This line in the tables covers a miscellany of minor departments and programmes, civil superannuation costs, and the Property Services Agency. The revised plans provide for additional expenditure on maintenance of the Government estate which should enable the PSA to reduce the present backlog of major repairs over the next three years.

Science and Technology

30. Among the increases in provision are additions for universities, Research Councils, launch aid, and other science and technology programmes. *real some shape*
Additional provision for spending a serious and tech ally is included in several of the programmes above. ~~Within the~~

~~expenditure plans~~ the amount accounted for by spending on civil science and technology will rise by over £200 million a year, including increases already announced, compared with the plans in Cm 56.

LOCAL AUTHORITIES

Relevant

31. ^{inv} Local authority relevant public expenditure accounts for over three quarters of local authorities' ~~entire~~ public expenditure. It comprises current spending on a wide range of services, and contributions to housing revenue accounts in England and Wales.

32. It is forecast to exceed provision in Cm 56 by £1.2 billion in 1987-88. From the estimated outturn for 1987-88, the provision set for the three forward years shows annual increases of 3.9%, 3.2% and 3.0%. The allocation to services is based on local authorities' budgets for 1987-88.

33. ~~Relevant public expenditure forms over 90% of expenditure relevant for determining~~ Aggregate Exchequer Grant ^{to local authorities} which has been set at £17.4 billion, as announced by the Secretaries of State for the Environment, Scotland and Wales on 23 July.

Other Current

34. ^{inv} The local authorities' other current expenditure consists largely of Housing Benefit, and Student Awards, which are supported ^{as to} by ^{by} over 90% specific grants from central Government. ~~and are not relevant for Rate Support Grant.~~

35. The plans reflect revised estimates of the costs of Housing Benefit. They take into account the proposed changes in benefit entitlement announced by the Secretary of State for Social Services on 27 October.

Capital

36. Local authority gross capital spending in Great Britain in 1987-88 is forecast to be £7.1 billion. After allowing for capital receipts, the net cost of programmes is forecast to be £3.7 billion.

37. Gross provision for spending in 1988-89 has been increased by £0.6 billion to £7.0 billion and gross provision of £6.7 billion has been made for 1989-90 and

X
1990-91. Within this provision the amount issued as allocations will take account of the expected use by local authorities of the spending power available to them from other sources, notably capital receipts.

38. For the main local authority capital cash limit in England, allocations of over £2.6 billion will be issued in 1988-89. Of the total, housing authorities will receive £1.3 billion. Education allocations will rise to £372 million in 1988-89, 25 per cent higher than in 1987-88, increasing the scope for work on school improvements.

NATIONALISED INDUSTRIES

39. External financing limits for nationalised industries in 1988-89 are listed in Table 2.4. In total there is an increase of £340 million from provision in Cm 56. This reflects a number of changes but the main additions are for the electricity industries in England and Wales and Scotland. Investment plans have been substantially increased, particularly in the electricity industry, which is ~~starting~~ ^{embarking} on a programme of building new capacity, and the water industry. The plans also allow for additional investment by British Rail, London Regional Transport and the Post Office to improve ^{the} quality of service. Total nationalised industries investment is expected to rise from about £4½ billion in 1987-88 to around £6 billion in 1990-91. This figure includes provision for a number of industries which are candidates for privatisation.

40. Despite the substantial level of investment planned, total provision for nationalised industries' external finance is expected to decline in 1989-90 and 1990-91, with net repayments of debt overall by the end of the decade (Table 2.3). This trend is in line with the Government's objective of minimising the burden which the industries place on the taxpayer, and strengthening them as businesses earning an adequate rate of return. External finance for nationalised industries has already been significantly reduced, from nearly £3 billion in 1979-80 to an estimated £590 million in 1987-88. The Government will continue to require improvements in the industries' profitability and further progress in reducing costs and increasing productivity by setting demanding financial targets and performance aims.

OTHER PUBLIC CORPORATIONS

41. Provision is included under this heading for a large number of public corporations including Urban Development Corporations (UDCs), the Scottish and Welsh Development Agencies, the Northern Ireland Electricity Service, New Towns and the

Northern Ireland Housing Executive. Substantial increases to provision have been made for UDCs. These and other increases are offset in the 1988-89 by increased estimate of receipts by New Towns.

RESERVES

42. The plans include Reserves of £3.5 billion in 1988-89, £7 billion in 1989-90, and £10.5 billion in 1990-91. These will be available to meet unforeseen requirements including estimating changes. The Reserves for the two later years are higher than in any previous White Paper.

PRIVATISATION

43. The estimate of net proceeds from the privatisation programme is £5 billion a year, the same as in Cm 56. These proceeds are netted off the planning total and general government expenditure. However, in order to show the underlying trends in expenditure more clearly, charts 2.1 and 2.2 show growth rates and ratios to national income both including and excluding privatisation proceeds.

Chart 2.1 General government expenditure as a percentage of GDP.

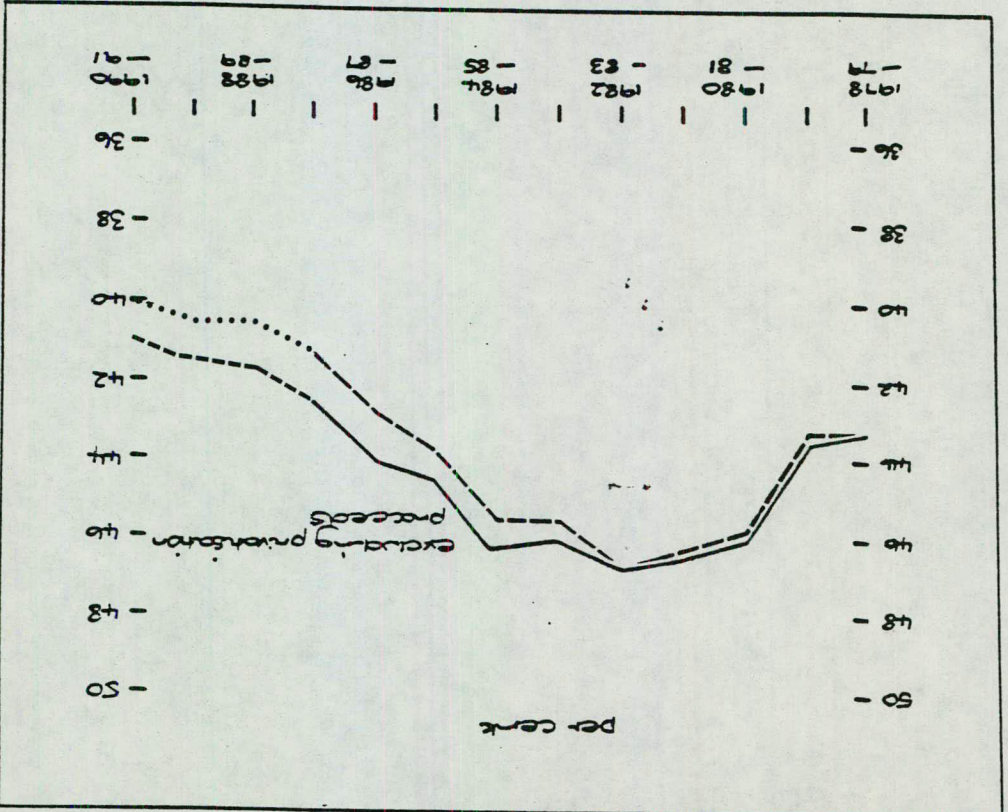
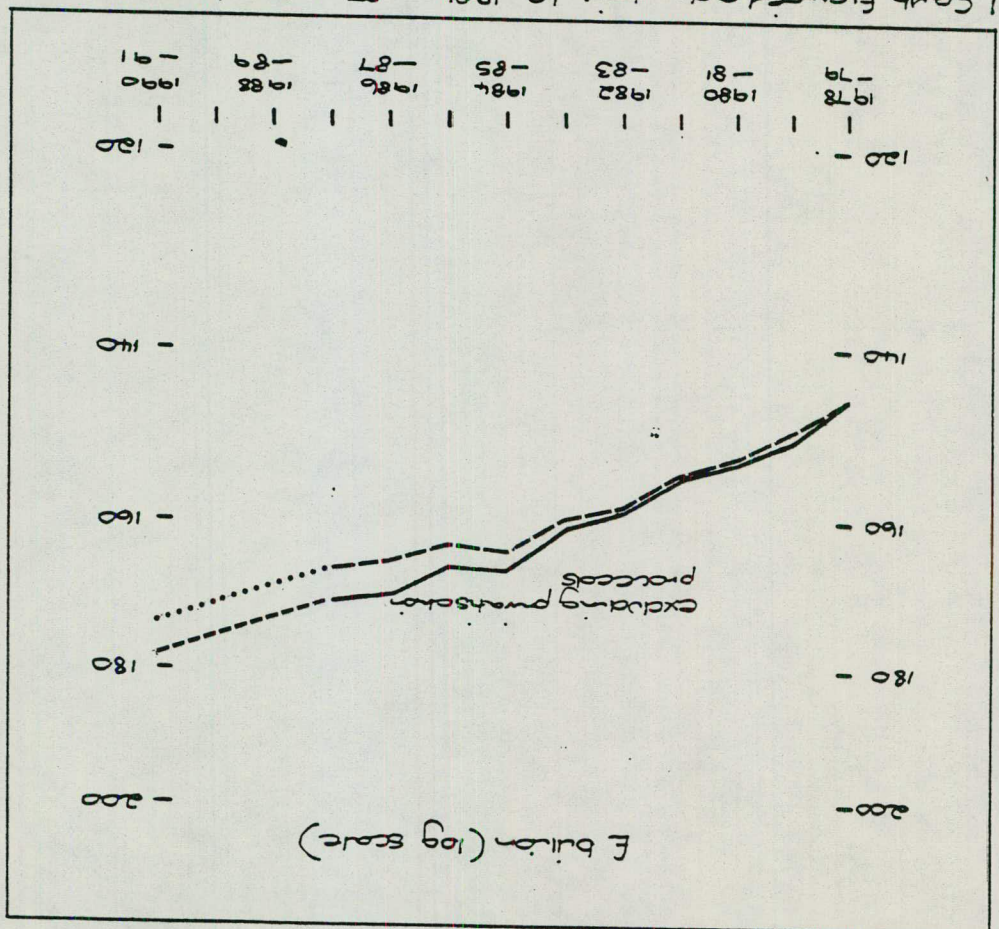


Chart 2: General government expenditure in real terms



1. Costs figured adjusted to 1986 - 87 price level by excluding the effect of general inflation as measured by the GDP deflator.

17055
Table 2.1

Public Expenditure Trends

	<u>Planning Total</u>		<u>General government expenditure</u>		<u>£ billion</u> <u>General government expenditure (excluding privatisation proceeds)</u>	
	Cash	Real terms ²	Cash	Real terms ²	Cash	Real terms ²
1978-79	65.7	127.9	74.8	145.5	74.8	145.5
1979-80	77.6	129.1	89.8	149.4	90.1	150.0
1980-81	92.6	130.1	108.4	152.2	108.8	152.8
1981-82	104.0	133.0	120.5	154.1	121.0	154.7
1982-83	113.5	135.4	132.5	158.1	133.0	158.6
1983-84	120.3	137.2	140.1	159.7	141.2	161.0
1984-85	129.8	141.8	150.1	164.0	152.2	166.3
1985-86	133.7	137.8	158.3	163.0	161.0	165.8
1986-87	139.4	139.4	165.1	165.1	169.5	169.5
1987-88	147.6	141.5	172.8	165.8	177.8	170.6
1988-89	156.9	144.0	183.1	168.1	188.1	172.6
1989-90	167.3	148.4	193.5	171.6	198.5	176.0
1990-91	176.6	152.1	202.5	174.4	207.5	178.7

1. Estimated outturn for 1987-88; plans for 1988-89 onwards.
2. Cash figures adjusted to 1986-87 price levels by excluding the effect of general inflation as measured by the GDP deflator at market prices. The GDP deflator is assumed to increase by some 4½ per cent in 1987-88, and by 4½, 3½, 3 per cent respectively in the years 1988-89 to 1990-91.

Table 2.2

Public expenditure as percentage of GDP

	General government expenditure	General government expenditure (excl privatisation proceeds)
1978-79	43½	43½
1979-80	43½	43½
1980-81	45½	46
1981-82	46½	46½
1982-83	46½	46½
1983-84	45½	46
1984-85	45½	46½
1985-86	43½	44½
1986-87	42½	44
1987-88	41½	42½
1988-89	40½	41½
1989-90	40½	41½
1990-91	40	41

TABLE 2.3: PUBLIC EXPENDITURE

£ million

	Latest estimates of outturn			New plans			Changes from January 1987 White Paper		
	1986-87 OUTTURN	1987-88 ESTIMATED OUTTURN	CHANGE 1986-87 TO 1987-88	1988-89 PLANS	1989-90 PLANS	1990-91 PLANS	1987-88	1988-89	1989-90
Ministry of Defence	18,149.0	18,950.0	801.0	19,201.0	19,949.0	20,556.2	168.0	221.0	485.0
FCO - Diplomatic wing	635.0	700.0	65.0	716.7	735.8	755.8	-30.0	-12.9	-10.8
FCO - Overseas Development Administration	1,290.0	1,325.0	35.0	1,430.0	1,502.7	1,548.9	-27.0	31.2	61.6
European Communities	1,088.0	1,400.0	312.0	803.8	1,594.0	1,333.7	517.0	350.0	520.0
Ministry of Agriculture, Fisheries and Food	1,865.0	2,133.0	268.0	2,283.9	2,392.9	2,545.0	-125.0	-108.6	-99.9
Department of Trade and Industry	2,097.0	925.0	-1,172.0	1,228.1	1,185.7	1,133.4	-196.0	258.2	219.7
Export Credits Guarantee Department	259.0	159.0	-100.0	162.0	113.4	132.8	-5.0	51.4	66.7
Department of Energy	-191.0	274.0	465.0	119.8	-185.7	-415.8	355.0	163.1	51.8
Department of Employment	3,877.0	4,105.0	228.0	4,236.3	4,293.4	4,346.3	83.0	37.7	-6.5
Department of Transport	4,709.0	4,800.0	91.0	5,144.2	5,111.6	5,209.0	-342.0	59.9	-27.2
DOE - Housing	2,605.0	2,520.0	-85.0	3,018.2	3,003.0	3,042.5	-701.0	-14.0	-104.0
DOE - other environmental services	3,915.0	4,023.0	108.0	3,814.2	4,002.0	4,105.0	189.0	-61.5	89.9
Home Office	5,161.0	5,794.0	633.0	6,054.2	6,306.9	6,477.0	256.0	357.1	448.8
Legal departments	673.0	876.0	203.0	964.2	1,032.8	1,095.6	5.0	23.7	38.0
Department of Education and Science	15,691.0	17,170.0	1,479.0	17,962.1	18,631.4	19,160.2	583.0	625.5	804.7
Office of Arts and Libraries	817.0	893.0	76.0	900.5	937.9	969.2	67.0	48.6	64.5
DHSS - health and personal social services	17,918.0	19,556.0	1,638.0	20,677.3	21,684.3	22,641.9	432.0	810.0	933.0
DHSS - social security	44,442.0	46,445.0	2,003.0	48,502.6	50,854.6	53,579.2	443.0	1,050.6	1,535.8
Scotland	7,736.0	8,220.0	484.0	8,511.0	8,608.4	8,762.3	258.0	402.7	387.5
Wales	3,057.0	3,314.0	257.0	3,442.0	3,543.8	3,655.6	122.0	144.0	156.8
Northern Ireland	4,638.0	4,886.0	248.0	5,120.5	5,305.6	5,480.8	15.0	82.7	111.3
Chancellor's departments	2,067.0	2,311.0	244.0	2,438.5	2,553.5	2,637.6	96.0	134.6	141.9
Other departments	1,318.0	1,451.0	133.0	1,636.7	1,921.0	1,770.9	-89.0	8.3	215.6
Reserve				3,500.0	7,000.0	10,500.0	-3,500.0	-2,000.0	-500.0
Privatisation proceeds	-4,403.0	-5,000.0	-597.0	-5,000.0	-5,000.0	-5,000.0	0.0	0.0	0.0
Adjustments	0.0	400.0	400.0	0.0	0.0	0.0	426.0		
PLANNING TOTAL	139,413.0	147,630.0	8,217.0	156,867.8	167,078.0	176,023.1	-1,000.0	2,663.3	5,562.2
General Government gross debt interest	17,400.0	17,800.0	400.0	18,000.0	18,000.0	18,000.0	-200.0	0.0	-1,000.0
Other National Accounts adjustments	8,300.0	7,366.0	-934.0	8,000.0	8,500.0	8,500.0	366.0	500.0	1,000.0
GENERAL GOVERNMENT EXPENDITURE	165,113.0	172,796.0	7,683.0	182,867.8	193,578.0	202,523.1	-834.0	3,163.3	5,562.2

External Finance Limits for the Nationalised Industries 1988-89

	<u>£million</u>
British Coal	670
Electricity (England and Wales)	-1040
North of Scotland Hydro-electric Board	-2
South of Scotland Electricity Board	131
British Steel Corporation	-100
Post Office	-97
National Girobank	-8
British Railways Board	753
British Waterways Board	47
Scottish Transport Group	2
British Shipbuilders	80
Civil Aviation Authority	21
Water (England and Wales)	10
London Regional Transport	221
<hr/>	
Total	1599
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*This does
not add up.*

TABLE 2.5: CENTRAL GOVERNMENT

£ million

	Latest estimates of outturn			New plans			Change from January 1987 White Paper(1)		
	1986-87	1987-88	CHANGE	1988-89	1989-90	1990-91	1987-88	1988-89	1989-90
	OUTTURN	ESTIMATED	1986-87 TO	PLANS	PLANS	PLANS			
		OUTTURN	1987-88						
CENTRAL GOVERNMENT									
Ministry of Defence	18,161.0	18,950.0	789.0	19,201.0	19,949.0	20,556.2	168.0	221.0	485.0
FCO - Diplomatic wing	631.0	697.0	66.0	716.7	735.8	755.8	-3.0	-12.9	-10.8
FCO - Overseas Development Administration	1,270.0	1,314.0	44.0	1,397.7	1,469.8	1,515.1	-13.0	31.2	61.6
European Communities	1,088.0	1,414.0	326.0	803.8	1,594.0	1,333.7	531.0	350.0	520.0
Ministry of Agriculture, Fisheries and Food	1,667.0	1,946.0	279.0	2,067.0	2,170.2	2,316.3	-113.0	-120.6	-115.4
Department of Trade and Industry	1,844.0	1,050.0	-794.0	1,249.8	1,254.1	1,195.5	80.0	280.0	289.0
Export Credits Guarantee Department	259.0	159.0	-100.0	162.0	113.4	132.8	-4.0	51.4	66.7
Department of Energy	907.0	589.0	-318.0	512.1	458.1	431.3	91.0	41.8	27.2
Department of Employment	3,757.0	3,976.0	219.0	4,106.7	4,157.5	4,206.6	77.0	31.7	-16.2
Department of Transport	1,260.0	1,410.0	150.0	1,453.9	1,489.4	1,530.7	15.0	30.5	35.5
DOE - Housing	1,313.0	1,367.0	54.0	1,315.2	1,375.8	1,461.2	13.0	-8.5	40.0
DOE - other environmental services	363.0	433.0	70.0	442.6	446.6	448.3	26.0	25.8	19.3
Home Office	906.0	1,033.0	127.0	1,120.3	1,196.2	1,212.1	10.0	80.9	110.2
Legal departments	673.0	876.0	203.0	964.2	1,032.8	1,095.7	5.0	23.7	30.0
Department of Education and Science	2,459.0	2,703.0	244.0	2,932.5	3,079.2	3,143.1	72.0	211.7	271.4
Office of Arts and Libraries	337.0	369.0	32.0	403.8	423.8	439.7	13.0	35.6	46.5
DHSS - health and personal social services	15,154.0	16,517.0	1,363.0	17,621.6	18,458.6	19,320.1	333.0	700.0	800.0
DHSS - social security	40,973.0	42,555.0	1,582.0	44,782.7	46,873.2	49,477.8	187.0	908.7	1,333.1
Scottish Office	3,310.0	3,504.0	194.0	3,603.0	3,784.0	3,907.1	66.0	60.9	118.2
Welsh Office	1,453.0	1,556.0	103.0	1,669.7	1,714.0	1,768.9	45.0	91.3	83.6
Northern Ireland	3,593.0	3,796.0	203.0	3,999.9	4,166.0	4,309.3	14.0	66.9	92.2
Chancellor's departments	2,074.0	2,318.0	244.0	2,444.2	2,560.2	2,643.3	96.0	133.5	141.8
Other departments	1,318.0	1,451.0	133.0	1,636.7	1,921.0	1,770.9	-89.0	8.3	215.6
TOTAL	104,769.0	109,983.0	5,214.0	114,607.1	120,422.7	124,971.5	1,620.0	3,242.9	4,644.5

TABLE 2.6: LOCAL AUTHORITY SPENDING

£ million

	Latest estimates of outturn			New plans			Changes from January 1987 White Paper		
	1986-87 OUTTURN	1987-88 ESTIMATED OUTTURN	CHANGE 1986-87 TO 1987-88	1988-89 PLANS	1989-90 PLANS	1990-91 PLANS	1987-88	1988-89	1989-90
Ministry of Agriculture, Fisheries and Food	186.0	166.0	-20.0	197.2	205.2	210.7	-14.0	12.0	15.5
Department of Trade and Industry	79.0	89.0	10.0	89.9	93.3	95.6	6.0	4.9	6.0
Department of Employment	115.0	126.0	11.0	129.6	135.9	139.6	6.0	6.6	10.3
Department of Transport	2,483.0	2,437.0	-46.0	2,644.3	2,712.6	2,787.2	-239.0	-60.0	-52.0
DOE - Housing	1,274.0	1,141.0	-133.0	1,686.0	1,538.6	1,460.8	-660.0	55.0	-152.0
DOE - Other environmental services	3,424.0	3,665.0	241.0	3,372.1	3,476.2	3,569.8	341.0	15.1	43.1
Home Office	4,254.0	4,762.0	508.0	4,933.9	5,110.7	5,264.8	246.0	276.2	330.6
Department of Education and Science	13,232.0	14,467.0	1,235.0	15,029.6	15,552.1	16,017.2	511.0	413.8	533.3
Office of Arts and Libraries	480.0	524.0	44.0	496.7	514.1	529.5	55.0	13.0	18.0
DHSS - Health and personal social services	2,738.0	3,027.0	289.0	3,127.6	3,225.7	3,321.8	99.0	110.0	133.0
DHSS - Social security	3,470.0	3,790.0	320.0	3,719.9	3,981.4	4,101.4	156.0	141.9	202.7
Scottish Office	3,942.0	4,326.0	384.0	4,524.6	4,627.8	4,770.9	133.0	185.1	162.7
Welsh Office	1,539.0	1,696.0	157.0	1,687.6	1,738.1	1,792.6	98.0	53.4	65.7
Northern Ireland	716.0	700.0	-16.0	736.6	771.6	793.1	0.0	10.1	12.2
TOTAL	37,932.0	40,916.0	2,984.0	42,375.6	43,683.3	44,855.0	738.0	1,237.1	1,329.1
of which -									
Relevant expenditure	29,400.0	32,100.0	2,700.0	33,251.0	34,334.0	35,362.0	1,154.0	1,045.0	1,282.6
Other current	4,800.0	5,100.0	300.0	5,073.4	5,384.7	5,540.3	124.0	142.2	208.8
Capital	3,700.0	3,700.0	0.0	4,065.9	3,977.3	3,957.4	-539.0	64.6	-149.5

TABLE 2.7: PUBLIC CORPORATIONS*

£ million

	Latest estimates of outturn			New plans			Changes from January 1987 White Paper £million		
	1986-87	1987-88	CHANGE	1988-89	1989-90	1990-91	1987-88	1988-89	1989-90
	OUTTURN	ESTIMATED OUTTURN	1986-87 TO 1987-88	PLANS	PLANS	PLANS			
Overseas Development Administration	24.0	14.0	-10.0	32.2	33.0	33.8	-14.0	0.0	0.0
Ministry of Agriculture, Fisheries and Food	13.0	21.0	8.0	19.7	17.5	18.0	2.0	0.0	0.0
Department of Trade and Industry	173.0	-214.0	-387.0	-111.6	-161.7	-157.7	-282.0	-26.7	-75.3
Department of Energy	-1,098.0	-315.0	783.0	-392.3	-643.8	-847.1	264.0	121.3	24.6
Department of Transport	966.0	953.0	-13.0	1,046.1	909.6	891.2	-133.0	89.4	-10.7
DOE - Housing	19.0	12.0	-7.0	17.0	88.6	120.6	-54.0	-60.5	8.0
DOE - Other environmental services	128.0	-75.0	-203.0	-0.5	79.2	86.9	-173.0	-102.4	27.5
Scottish Office	484.0	390.0	-94.0	383.4	196.6	84.3	60.0	156.7	106.6
Welsh Office	65.0	79.0	14.0	84.7	91.7	94.1	-4.0	-0.7	1.5
Northern Ireland	329.0	390.0	61.0	384.0	368.0	378.4	1.0	5.7	6.9
Other	12.0	-2.0	-10.0	-78.6	-6.7	-5.7	0.0	-0.6	-0.6
TOTAL	1,115.0	1,253.0	142.0	1,384.1	972.0	696.8	-343.0	110.9	89.1
of which -									
Nationalised industries	400.0	1,000.0	600.0	687.1	-32.0	-386.2	-105.0	344.5	23.9
Other public corporations	700.0	700.0	-100.0	700.6	1,004.2	1,083.8	-240.0	-158.7	64.8

*For nationalised industries and most public corporations the planning total includes their external finance. For nationalised industries' external financing limits for 1988-89, see table 2.4.